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MONTANA LEGISLATIVE HISTORY

Chapter 724 19 85

Bill H 636 S _____ Original bill & history ___C

H. Committee on Taxation		S. Committee on Taxation	
Hearing Date(s) 2-15	___C	Hearing Date(s) 4-3	___C
3-5	___C	4-16	___C
_____	___C	_____	___C
_____	___C	_____	___C
Date Out 3-5	___C		
mt 3-5		mt 4-16	

Did this bill originate in an interim committee? ___Yes ___No

Committee _____ Report _____

3/26	COMMITTEE REPORT-BILL CONCURRED		
3/29	2ND READING CONCURRED	26	22
3/30	3RD READING CONCURRED	25	24
	RETURNED TO HOUSE		
4/04	SIGNED BY SPEAKER		
4/04	SIGNED BY PRESIDENT		
4/04	TRANSMITTED TO GOVERNOR		
4/08	SIGNED BY GOVERNOR		
	CHAPTER NUMBER 385 EFFECTIVE DATE: 7/01/85		

HB 635 INTRODUCED BY DARKO, J. HAMMOND, HARBIN
ALLOW SCHOOL DISTRICTS REIMBURSEMENT FOR VEHICLE DRIVEN TO BUS LOCATION

2/02	INTRODUCED		
2/02	REFERRED TO EDUCATION & CULTURAL RESOURCES		
2/04	FISCAL NOTE REQUESTED		
2/11	FISCAL NOTE RECEIVED		
2/15	HEARING		
2/16	COMMITTEE REPORT-BILL PASS AS AMENDED		
2/18	2ND READING PASS	96	0
2/20	3RD READING PASS	98	2
	TRANSMITTED TO SENATE		
2/22	REFERRED TO EDUCATION & CULTURAL RESOURCES		
3/15	HEARING		
3/18	COMMITTEE REPORT-BILL CONCURRED		
3/25	2ND READING CONCURRED	49	1
3/27	3RD READING CONCURRED	47	3
	RETURNED TO HOUSE		
3/28	SIGNED BY SPEAKER		
3/30	SIGNED BY PRESIDENT		
4/01	TRANSMITTED TO GOVERNOR		
4/03	SIGNED BY GOVERNOR		
	CHAPTER NUMBER 344 EFFECTIVE DATE: 10/01/85		

HB 636 INTRODUCED BY ABRAMS, DEVLIN, ET AL.
REDUCED TAX RATE ON PETROLEUM PRODUCED BY TERTIARY RECOVERY METHODS

2/02	INTRODUCED		
2/02	REFERRED TO TAXATION		
2/04	FISCAL NOTE REQUESTED		
2/11	FISCAL NOTE RECEIVED		
2/15	HEARING		
3/06	COMMITTEE REPORT-BILL PASS AS AMENDED		
3/07	2ND READING PASS	87	10
3/08	3RD READING PASS	85	13
	TRANSMITTED TO SENATE		
3/11	REFERRED TO TAXATION		
4/03	HEARING		
4/16	COMM REPORT-BILL CONCURRED AS AMENDED		
4/17	2ND READING CONCURRED	41	5
4/18	3RD READING CONCURRED	45	5

	RETURNED TO HOUSE WITH AMENDMENTS		
4/20	2ND READING AMENDMENTS CONCURRED	81	6
4/22	3RD READING AMENDMENTS CONCURRED	80	13
4/24	SIGNED BY SPEAKER		
4/24	SIGNED BY PRESIDENT		
4/24	TRANSMITTED TO GOVERNOR		
4/24	RETURNED WITH GOVERNOR'S AMENDMENTS		
4/24	2ND READING GOVERNOR'S AMENDMENTS CONCURRED	86	4
4/25	3RD READING GOVERNOR'S AMENDMENTS CONCURRED	96	3
	TRANSMITTED TO SENATE		
4/25	2ND READING GOVERNOR'S AMENDMENTS CONCURRED	50	0
4/25	3RD READING GOVERNOR'S AMENDMENTS CONCURRED	49	0
	RETURNED TO HOUSE		
5/01	SIGNED BY SPEAKER		
5/01	SIGNED BY PRESIDENT		
5/02	TRANSMITTED TO GOVERNOR		
5/13	SIGNED BY GOVERNOR		
	CHAPTER NUMBER 724 EFFECTIVE DATE: 7/01/85		

HB 637 INTRODUCED BY IVERSON
REVISE ENFORCEMENT PROCEDURE FOR HARD-ROCK ANNUAL FEES AND REPORTS
BY REQUEST OF DEPARTMENT OF STATE LANDS

2/02	INTRODUCED		
2/02	REFERRED TO NATURAL RESOURCES		
2/20	HEARING		
2/22	COMMITTEE REPORT-BILL DO PASS		
2/23	2ND READING PASS	90	1
2/26	3RD READING PASS	96	2
	TRANSMITTED TO SENATE		
3/04	REFERRED TO NATURAL RESOURCES		
3/20	HEARING		
3/21	COMMITTEE REPORT-BILL CONCURRED		
3/23	2ND READING CONCURRED	49	0
3/26	3RD READING CONCURRED	50	0
	RETURNED TO HOUSE		
3/28	SIGNED BY SPEAKER		
3/28	SIGNED BY PRESIDENT		
3/29	TRANSMITTED TO GOVERNOR		
4/01	SIGNED BY GOVERNOR		
	CHAPTER NUMBER 284 EFFECTIVE DATE: 10/01/85		

HB 638 INTRODUCED BY IVERSON, D. BROWN
TO REVISE LAW REGARDING SMALL MINER EXEMPTIONS
BY REQUEST OF DEPARTMENT OF STATE LANDS

2/02	INTRODUCED		
2/02	REFERRED TO NATURAL RESOURCES		

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HOUSE TAXATION COMMITTEE

49th Legislature

ill No.	Subject Matter	Date In	Sponsor	Hearing Date	Committee Action	Date Out
B 51	To increase the penalty for violation of MT income tax provisions	1-29-85	B. Brown	3-14-85	TABLED 3-14-85	
B 590	Requiring the inclusion in adjusted gross income, for certain property, of a portion of depreciation deduction provided for by accelerated cost recovery	1-31-85	Keenan	3-14-85	TABLED 3-28-85 p.m.	
B 596	To exempt from corporation license tax provisions those farmers' market assoc. organized for sole purpose of providing retail outlet	1-31-85	Donaldson	2-8-85	DO PASS	2-11-85
B 607	To allow a production incentive tax credit to the coal severance tax on incremental production of coal,etc.	2-1-85	Quilici	2-14-85	RECONSIDERED DO PASS, AS AMENDED DO PASS, AS AMENDED	3-20-85 3-20-85
B 617	To increase the deduction of tax allowed to a special fuel dealer for shrinkage but limiting to first 10,000 gal.	2-1-85	Hammond	2-7-85	DO NOT PASS	2-11-85
B 636	To reduce the tax rate on petroleum produce by teritiary recovery methods from 5% to 215%, etc.	2-2-85	Abrams	2-15-85	DO PASS, AS AMENDED	3-5-85

orm CS-32
-81

Representative Sands asked how the heirs would benefit.

Mr. Minto replied that the countess was involved in community development in Hamilton and he thought that the executors of the estate looked more at what they could do for Ravali County and the state than what it is going to do for the estate itself.

Chairman Devlin asked if there were any lineal descendants.

Mr. Minto replied that there is a stepson and whether or not the courts will determine him to be a lineal descendant is still an open question.

Chairman Devlin asked Mr. Flynn if the department would allow hunting in that area if they obtained this property.

Mr. Flynn responded that they do normally presume hunting as one of the wildlife management schemes so he would assume that that would definitely take place.

Representative Ellison asked what the bottom line is going to be financially.

Mr. LaFaver answered that they spoke in very general terms regarding the fiscal note as there was a lot of information that they need to know simply to find out what the tax liability is. He explained in very rough terms that there could be $1 to $2 million in inheritance tax.

Representative Patterson asked if they knew the assessed value of that estate.

Mr. Tossberg replied that he thought the total taxes on the entire estate run around $30,000.00 a year.

There were no further questions.

Representative Fritz stated that this is an enabling act and they have to be very careful and very cautious when they assess the impact of this bill.

The hearing on this bill was closed.

CONSIDERATION OF HOUSE BILL 636: Representative Abrams, District 24, offered amendments to this bill. See Exhibit 4. He explained this bill was to reduce the tax rate on petroleum that was produced by tertiary recovery methods and said this was essential to the continued growth and production of petroleum resources in this state.

Representative Hart, District 23, Glendive, gave a statement in support of this bill.

Tucker Hill, Director of Project 85, which is a group of 80 oil and gas operators and other interested individuals, offered testimony in support of this bill. See Exhibit 5. He also offered testimony from other oil companies. See Exhibits 6, 7, 8, 9 and 10.

Jerome Anderson, representing the Shell Western E. & P. Inc., offered testimony in support of this bill. He distributed to the committee Exhibit 11.

George Keys, Production Manager for the Rocky Mountain Division of Shell Western E. & P., Inc., gave a statement in support of this bill. See Exhibit 12.

Lorraine Gillies, representing the Montana Farm Bureau Federation, said they support this bill. See Exhibit 13.

Alice Anderson (?), a member of the Chamber of Commerce, stated that they were in support of this bill.

Senator Tveit, District 11, stated that the tertiary method is an expensive method and the amount of oil that is still in the ground can be recovered and he would support this bill.

Mr. Boedecker, representing Glendive Forward, the Wibaux Chamber of Commerce and People for Economic Progress, offered testimony in support of this bill. See Exhibit 14.

John Rafelberg, Wolf Point, Montana, said that when oil fields are getting in the shape they are, they should develop the oil that is down there and keep pumping it out.

Jim Stanton, Superintendent of Schools in Baker, said that the school system was in support of this bill.

Jim Anderson, Baker, said that in eastern Montana, oil is very important to them and he urged the committee to pass this bill.

John LaFaver, Director of the Department of Revenue, said that they support this bill with certain amendments. He explained that if the sizable costs could be amortized over ten years, then the impact on local schools and counties would be softened.

Jim Oppedahl, from the Office of Budget and Program Planning, shared some of the background information on this tertiary recovery method in the United States. He handed out Exhibit 15 to the committee.

Mike Stephen, representing the Montana Oil, Gas and Coal Company, stated that this bill primarily affects four counties, but the committee should envision how this could affect other counties.

Jerome Anderson pointed out to the committee that the amendments that Mr. Oppedahl presented were amendments that were worked out between him on behalf of Shell Oil Company and Mr. Oppedahl; and the oil companies agree with the amendments.

Delane Beach, County Commissioner from Fallon County, said that their county was most affected by this, but he speaks for all four counties and they support this bill.

Ed McCaffree, County Commissioner, Forsyth, gave a statement in support of this bill.

John Shontz, from Sidney, gave a statement in support of this bill.

Representative Switzer, District 28, indicated that he was a proponent of this bill.

Representative Gilbert, District 22, wanted to go on record as being in support of this bill.

Chairman Devlin indicated that he was a proponent on this bill also, as was Representative Asay and Representative Hanson.

There were no further proponents.

OPPONENTS: There were none.

QUESTIONS ON HOUSE BILL 636: Representative Raney asked if oil production will go up or down without this bill.

Mr. Hill responded that Shell Oil Company has made a decision that the project depends on this incentive and, in that case, he would see oil production going down.

Representative Ellison asked if the incentive of 2½% would make recovery feasible for up to 40 years or at what point would it not be feasible.

Mr. Keys replied that it takes big dollars up front to start this and once the money has been spent, they are locked in and that is why they are trying to get as many assurances as possible about these unknowns.

Representative Ream asked if during periods of increasing production, does the revenue go to the local communities.

Mr. Keys responded that in 1979, a bill provided for impact money for the local communities on increased production.

Representative Ream asked if this would apply to tertiary treatment.

Mr. Keys answered that this is certainly something that the committee might want to consider as there are some local impacts even under a ten-year amortization, but he did not believe that the original intent of the bill would allow that increased production and incentive to go to the local areas.

Representative Sands asked about the tax rates in other states compared to Montana.

Mr. Anderson responded that the Idaho tax is 2% of value, North Dakota is 13½% of gross value and 5% of the stripper wells and Wyoming is 4 to 6% of gross value. He explained

that there is more than just the severance tax involved in taxation in Montana and that it is difficult to just look at these figures and make a comparison.

Representative Ellison asked about the other methods of recovery.

Mr. Keys replied that they do not contemplate using any of them in Montana.

Representative Cohen asked about the fiscal note.

Mr. Oppedahl replied that they are plowing new ground in terms of applying this technique in Montana. He explained that the only major project in Montana is the Belle Creek area and they anticipate that they can recover around 100 million barrels if it was successful.

Representative Cohen pursued some other questions on the fiscal note.

Mr. Anderson replied that the fiscal note shows that the taxes will be collected at 2⅔% and taxes collected at 5% and the difference is $56 millon, but they have to understand, that if they do not get the tax incentive, this project is not going and with the project going, they are going to increase their tax collection by $56 million.

There were some further questions concerning the price of oil going up or down.

There were no further questions.

Representative Abrams closed by saying would they sooner have 5% of nothing or 2⅔% of the incremental oil.

The hearing on this bill was closed.

CONSIDERATION OF HOUSE BILL 704: Representative Marks, District 75, said that this bill allows the taxing jurisdiction to levy the tax on the unprotested amount of the taxable valuation and any settlement in the protested tax will provide a reduction in the taxes for subsequent

Exhibit 4
HB 636
2/15/85
Fritz Abrahams

49th Legislature LC 0631/01

HOUSE BILL NO. 636

INTRODUCED BY _____

A BILL FOR AN ACT ENTITLED: "AN ACT TO REDUCE THE TAX RATE ON PETROLEUM PRODUCED BY TERTIARY RECOVERY METHODS FROM 5 PERCENT TO 2.5 PERCENT; ~~ALLOWING~~ REQUIRING AMORTIZATION OVER 10 YEARS OF THE ~~DEDUCTION FOR THE~~ COSTS OF ~~CARBON DIOXIDE~~ NECESSARY CHEMICAL SUPPLIES USED IN APPROVED TERTIARY RECOVERY PROJECTS; AMENDING SECTIONS 15-23-603 AND 15-36-101, MCA; AND PROVIDING AN EFFECTIVE DATE."

WHEREAS, the Legislature recognizes that it is essential to the continued growth in production and development of the petroleum resources of this state and to the continued prosperity and welfare of the people of this state that tertiary recovery operations be encouraged; and

WHEREAS, the Legislature further recognizes that tertiary recovery methods are experimental and more costly than traditional enhanced recovery operations, thus preventing recovery of oil in many fields because of economic infeasibility.

THEREFORE, it is the policy of the Legislature to provide an economic incentive to petroleum producers who invest in tertiary recovery projects enhancing Montana's crude oil production to the ultimate benefit of the state.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-36-101, MCA, is amended to read:

"15-36-101. Definitions and rate of tax. (1) Every person engaging in or carrying on the business of producing petroleum, other mineral or crude oil, or natural gas within this state or engaging in or carrying on the business of owning, controlling, managing, leasing, or operating within this state any well or wells from which any merchantable or marketable petroleum, other mineral or crude oil, or natural gas is extracted or produced sufficient in quantity to justify the marketing of the same must, except as provided in 15-36-121, each year when engaged in or carrying on any such business in this state pay to the department of revenue for the

exclusive use and benefit of the state of Montana a severance tax computed at the following rates:

(a) except as provided in subsections (1)(b) and (1)(c), 5% of the total gross value of all the petroleum and other mineral or crude oil produced by such person from each lease or unit on or after April 1, 1981, and on or before March 31, 1983; 6% of the total gross value of all the petroleum and other mineral or crude oil produced by such person from each lease or unit on or after April 1, 1983, and on or before March 31, 1985; and 5% of the total gross value of all the petroleum and other mineral or crude oil produced by such person from each lease or unit thereafter; but in determining the amount of such tax there shall be excluded from consideration all petroleum or other crude or mineral oil produced and used by such person during such year in connection with his operations in prospecting for, developing, and producing such petroleum or crude or mineral oil;

(b) 2.65% of the total gross value of natural gas produced from each lease or unit; but in determining the amount of such tax there shall be excluded from consideration all gas produced and used by such person during such year in connection with his operations in prospecting for, developing, and producing such gas or petroleum or crude or mineral oil; and there shall also be excluded from consideration all gas recycled or reinjected into the ground; and all carbon dioxide gas USED IN AN APPROVED TERTIARY RECOVERY PROJECT;

(c) 2.5% of the total gross value of the incremental petroleum and other mineral or crude oil produced from each lease or unit in a tertiary recovery project after [the effective date of this act]. For purposes of this section, a tertiary recovery project must meet the following requirements:

(i) the project must be approved as a tertiary recovery project by the board of oil and gas conservation. Such approval may be extended only after notice and hearing as provided in 82-11-141.

(ii) the property to be affected by the project must be adequately delineated according to the

specifications required by the board of oil and gas conservation; and

(iii) the project must involve the application of one or more tertiary recovery methods that can reasonably be expected to result in an increase, determined by the board of oil and gas conservation to be significant in light of all the facts and circumstances, in the amount of crude oil which may potentially be recovered. For the purpose of this section, tertiary recovery methods include but are not limited to:

(A) miscible fluid displacement;

(B) steam drive injection;

(C) micellar/emulsion flooding;

(D) in situ combustion;

(E) polymer augmented water flooding;

(F) cyclic steam injection;

(G) alkaline or caustic flooding;

(H) carbon dioxide water flooding;

(I) immiscible carbon dioxide displacement;

(J) any other method approved by the board of oil and gas conservation as a tertiary recovery method.

(d) For purposes of this section, the term "incremental petroleum and other mineral or crude oil" means the amount of oil, as determined by the board of oil and gas conservation, to be in excess of what would have been produced by primary and secondary methods. THE DETERMINATION ARRIVED AT BY THE BOARD SHALL BE MADE ONLY AFTER NOTICE AND HEARING AND SHALL SPECIFY THROUGH THE LIFE OF A TERTIARY PROJECT, CALENDAR YEAR BY CALENDAR YEAR, THE COMBINED AMOUNT OF PRIMARY AND SECONDARY PRODUCTION THAT MUST BE USED TO ESTABLISH THE INCREMENTAL PRODUCTION FROM EACH LEASE OR UNIT IN A TERTIARY RECOVERY PROJECT.

(2) Nothing in this part may be construed as requiring laborers or employees hired or employed by any person to drill any oil well or to work in or about any oil well or prospect or explore for or do any work for the purpose of developing any petroleum or other mineral or crude oil to pay such severance tax, nor may any work done or the drilling of any well or wells for the purpose of prospecting or exploring for petroleum or other mineral or crude oils or for the purpose of developing same be considered to be the engaging in or carrying on of any such business. If, in the doing of any such work, in the drilling of any oil well, or in such prospecting, exploring, or development work, any merchantable or marketable petroleum or other mineral or crude oil in excess of the quantity required by such person for carrying on such operation is produced sufficient in quantity to justify the marketing of the same, such work, drilling, prospecting, exploring, or development

work is considered to be the engaging in and carrying on of such business within this state within the meaning of this section.

(3) Every person required to pay such tax hereunder shall pay the same in full for his own account and for the account of each of the other owner or owners of the gross proceeds in value or in kind of all the marketable petroleum or other mineral or crude oil or natural gas extracted and produced, including owner or owners of working interest, royalty interest, overriding royalty interest, carried working interest, net proceeds interest, production payments, and all other interest or interests owned or carved out of the total gross proceeds in value or in kind of such extracted marketable petroleum or other mineral or crude oil or natural gas, except that any of the aforesaid interests that are owned by the federal, state, county, or municipal governments shall be exempt from taxation under this chapter. Unless otherwise provided in a contract or lease, the pro rata share of any royalty owner or owners will be deducted from any settlements under said lease or leases or division of proceeds orders or other contracts."

Section 2. Section 15-23-603, MCA, is amended to read:

"15-23-603. Net proceeds -- how computed. (1) The department of revenue shall calculate and compute from the returns the gross sales proceeds of the product yielded from such well for the year covered by the statement and shall calculate the net proceeds of the well yielded to the producer, which net proceeds shall be determined by subtracting from the gross sales proceeds thereof the following:

(a) all royalty paid in cash by the operator or producer and the gross value of all royalty apportioned in kind by the operator or producer that shall be determined by using as the value of a barrel of oil or a cubic foot of gas the average selling price for the calendar year of a barrel of oil or a cubic foot of gas from the well out of which the royalty was paid;

(b) all moneys expended for necessary labor, and machinery, and supplies needed and used in the operation and development;

(c) except as provided in subsection (3), all moneys expended for necessary supplies needed and used in the operation and development;

~~(c)~~ (d) all moneys expended for improvements, repairs, and betterments necessary in and about the working of the well;

~~(d)~~ (e) all moneys expended for fire insurance and workers' compensation insurance and for payments by operators to welfare and retirement funds when

provided for in wage contracts between operators and employees;

~~(e)~~ (f) 70% of the amount paid or withheld in satisfaction of liability for excise taxes imposed by the U.S. government on the production, sale, or removal of the natural gas, petroleum, or other crude or mineral oil yielded from such well, other than the amount of such taxes paid by or withheld from each royalty owner.

(2) No moneys invested in the well and improvements during any year except the year for which such statement is made may be included in such expenditures, except as provided in 15-23-604, and such expenditures may not include the salaries or any portion thereof of any person or officer not actually engaged in the working of the well or superintending the management thereof.

(3) In calculating the deduction for moneys expended for carbon-dioxide NECESSARY CHEMICAL SUPPLIES needed and used in a tertiary recovery project approved by the board of oil and gas conservation, as provided in 15-36-101, the department shall ~~allow--10% of such moneys expended--each year for--a period of--10~~ years REQUIRE THAT THE NECESSARY CHEMICAL SUPPLIES, WHICH INCLUDE BUT ARE NOT LIMITED TO CARBON DIOXIDE SUPPLIES, BE AMORTIZED OVER A 10-YEAR PERIOD, beginning with the year in which the moneys were expended."

NEW SECTION. Section 3. Extension of authority. Any existing authority of the board of oil and gas conservation or the department of revenue to make rules on the subject of the provisions of this act is extended to the provisions of this act.

NEW SECTION. Section 4. Effective date. This act is effective July 1, 1985.

-END-

Exhibit 5
HB 636
2/15/85
Tucker Hill

MR. CHAIRMAN, MEMBERS OF THE HOUSE TAXATION COMMITTEE:

MY NAME IS TUCKER HILL. I AM THE DIRECTOR OF PROJECT 85; PROJECT 85 IS A GROUP OF 80 OIL AND GAS OPERATORS AND OTHER INTERESTED INDIVIDUALS AND GROUPS WHICH HAVE FORMED TOGETHER TO SUPPORT THREE BILLS WHICH IN OUR OPINION WILL GREATLY IMPROVE THE INVESTMENT ENVIRONMENT FOR OIL AND GAS EXPLORATION AND PRODUCTION IN MONTANA. TODAY, THE FIRST OF THOSE THREE BILLS, HOUSE BILL 636 IS BEING HEARD IN COMMITTEE. ON BEHALF OF PROJECT 85, I WISH TO STATE OUR TOTAL SUPPORT FOR THIS LEGISLATION.

PASSAGE OF HB 636 WILL CAUSE ADDITIONAL OIL TO BE PRODUCED IN MONTANA. OIL PRODUCTION IN MONTANA PEAKED IN 1968 AT 48.5 MILLION BARRELS A YEAR; SINCE THAT YEAR PRODUCTION HAS BEEN GENERALLY DECLINING TO ITS PRESENT YEARLY LEVEL OF ABOUT 29 MILLION BARRELS. AT THE LEAST, HOUSE BILL 636 WILL SLOW THE DECLINE OF OIL PRODUCTION IN OUR STATE. BUT ITS BENEFITS ARE EXTENSIVE AND VERY IMPORTANT TO OUR FUTURE.

HOUSE BILL 636 PROVIDES A SEVERANCE TAX REDUCTION FOR OIL PRODUCED BY TERTIARY METHODS. I WANT TO EMPHASIZE THAT THE TAX REDUCTION FROM 5% TO 2.5% APPLIES ONLY TO THE ADDITIONAL OIL PRODUCED BY TERTIARY METHODS. TERTIARY METHODS IS A TECHNICAL TERM WHICH DESCRIBES ONE OF SEVERAL WAYS TO PRODUCE OIL FROM OLDER FIELDS WHICH ARE ABOUT TO STOP PRODUCING. THE FEDERAL GOVERNMENT RECOGNIZES TERTIARY PRODUCTION METHODS FOR A REDUCTION WHEN DETERMINING WINDFALL PROFITS TAXES. THE FEDERAL DEFINITION OF TERTIARY PRODUCTION HAS BEEN USED IN HB 636.

IT IS IMPORTANT TO STATE THAT TERTIARY, OR THIRD-LEVEL, PRODUCTION METHODS ARE EXPENSIVE AND RISKY VENTURES. IT IS UNLIKELY THAT MAJOR THIRD LEVEL PRODUCTION PROGRAMS WILL BE INITIATED IN MONTANA UNLESS THIS TAX INCENTIVE IS APPROVED.

WHAT WILL PASSAGE OF HOUSE BILL 636 DO FOR MONTANA:

1. IT MAY WELL SET THE STAGE FOR INVESTMENTS EXCEEDING $1 BILLION TO BE MADE IN CERTAIN AREAS IN EASTERN MONTANA.

2. IT COULD CAUSE AN ADDITIONAL 100 MILLION BARRELS OF OIL TO BE PRODUCED.

3. IT COULD EXTEND THE LIFE OF SOME EASTERN MONTANA OIL FIELDS FOR UP TO 50 YEARS WHICH WILL MEAN 50 YEARS OF OIL AS AN IMPORTANT PROPERTY AND SEVERANCE TAX PAYER IN THE EASTERN END OF MONTANA.

4. IT COULD CREATE STABLE JOBS IN EASTERN MONTANA COMMUNITIES WHERE THEY ARE DESPERATELY NEEDED.

HOUSE BILL 636 ENJOYS THE SUPPORT OF THE ENTIRE OIL AND GAS INDUSTRY IN MONTANA, BUT IT ALSO HAS THE SUPPORT OF MANY OTHER INDIVIDUALS AND GROUPS. I HAVE SUPPLIED THE COMMITTEE COPIES OF LETTERS FROM SEVERAL PETROLEUM COMPANIES SUPPORTING THIS LEGISLATION. HOUSE BILL 636 HAS THE TOTAL SUPPORT OF THE MONTANA PETROLUEM ASSOCIATION. SEVERAL SUPPORTERS OF HOUSE BILL 636 WOULD NOW LIKE TO DESCRIBE SPECIFICALLY WHY THEY WANT HOUSE BILL 636 TO PASS.

PROJECT 85 Members

Aikins Drilling Co.
Amoco Production Co.
ARCO. Exploration Co.
BWAB Inc.
Balcron Oil Co.
Beren Corp.
C. Brewer Inc.
CENEX
Champlin Petroleum Co.
Chevron USA Inc.
Church, Harris, Johnson & Williams
Cities Service Oil & Gas Corp.
Citizens Bank of Montana
Clark Bros. Contractors
Conoco Inc.
Consolidated Oil & Gas, Inc.
Cotton Petroleum Corp.
Croft Petroleum Co.
Crowley, Haughey, Hanson, Toole and Dietrich
D.A.S. Resource Ventures Inc.
Deister, Ward & Witcher, Inc.
E-Line Oil Field Services
Elenburg Exploration Co. Inc.
Energy Reserves Group
Exxon Co. USA
Fox Oil Co.
Fuel Resources Development Co.
Gary Williams Oil Producer Inc.
Getter Trucking, Inc.
Getty Oil Co.
Grace Petroleum Corp.
Hancock, Warren J. Operator
Hannah Drilling Co.
Hawley & Desimon, Inc.
Heringer, Charles Jr.
Hi-Line Trucking, Inc.
Huckabay, E. Doyle Ltd.
Kennecott Minerals Co.
LYTM Co. Inc.
Ladd Petroleum Corp.
Livingston & Courdin Exploration, Inc.
Lynes, Inc.
Midlands Energy Co.
Milestone Petroleum Inc.
Montana Dakota Utilities Co.
Montana Eskimo Pet. Inc.
Montana Oil Well Cementers, Inc.
Mountain & Plains Oil Co.
Murphy Oil USA, Inc.
NRG Co., The
Nance Petroleum Corp.
Narco-Montana Power
Okerman, Mike
O'Toole, Loren
Petrocarbons, Ltd.
Phillips Petroleum Co.
Post Rock Oil Co.
Prairie Wireline Services
Quadra Oil & Gas, Inc.
Red River Royalty Corp.
Schaenen, David
Selah Land Co.
Shell Western E & P Inc.
Soap Creek Associates, Inc.
Sohio Petroleum Co.
Southland Royalty Co.
Sun Co. Inc.
Superior Oil Co.
T Bar S, Inc.
Texaco USA
Texas Oil & Gas Corp.
Torgerson, Ronald K.
Tricentrol
True Oil Co.
Vaughey & Vaughey
Vesta, Inc.
Watkins Engineering & Assoc.
Williams, Langdon G.
Zeno Inc.

Exhibit 5
HB 636
2/15/85
Tucker Hill

Santa Fe Energy Company

C. Ed Hall
Director-Public Affairs

February 11, 1985

D. Van De Graaff
Montana Petroleum Association
2030 11th Avenue, Suite 23
Helena, Montana 59601

Dear Van,

This letter is to advise you of Santa Fe Energy Company's support of Montana's HB 636.

Our Company was recently listed by The Oil Daily as one of the Country's largest independent petroleum producers. Also, a study of 30 large energy companies conducted by a major financial institution revealed that for the period 1978-83 Santa Fe Energy ranked from second to sixth in various categories related to either increasing or replacing reserves. This record is due in large part to our utilizing the latest technologies to extract additional oil from existing fields.

As examples of the importance of enhanced oil recovery (EOR) or tertiary recovery techniques to the oil and gas industry as well as to lessors such as a state, I submit the following:

(1) Almost 40 percent of Santa Fe's reserves added in 1983 were the result of EOR techniques.

(2) In 1974, we estimated proved reserves in five California oil fields at 51 million oil equivalent barrels. During the next 10 years we produced 105 million barrels with 1984 proved reserves estimated at 85 million oil equivalent barrels - from those same five fields.

Santa Fe Energy Company
Executive Office
Suite 1000
1616 South Voss Road
Houston, TX 77057-2696
713/783-2401

(3) Finally, in the Wasson field of West Texas, we are partners in a major tertiary recovery project utilizing carbon dioxide injection. We anticipate results beginning in late 1985 and should experience a production increase of some 35% within the next few years.

Santa Fe is not a major operator in Montana at this point with current daily oil production of approximately 500 barrels. We do however hold undeveloped leases in Montana and will be drilling wells in 1985.

Santa Fe is the operator of the Nisku Unit in Sheridan County Montana which we understand is the first carbon dioxide project in the state. Though our production from primary and secondary techniques on this lease was indeed minimal, we decided to use the field as a pilot project for carbon dioxide injection and the production virtually doubled. We have other leases in the State of Montana that could become candidates for tertiary recovery techniques.

Our nation's energy security depends in large part on technology that will recover oil from older existing fields. We at Santa Fe Energy encourage members of the Montana legislature to lead the way by creating an environment where enhanced recovery is encouraged for the overall benefit of the citizens of Montana.

Sincerely,

Ed

C. Ed Hall

/ld

Exhibit 7
HB 636
2/15/85
Tucker Hill

CELSIUS ENERGY COMPANY

79 SOUTH STATE STREET · P. O. BOX 11070 · SALT LAKE CITY, UTAH 84147 · (801)530-2648

ROLAND J. GILL, JR.
MANAGING ATTORNEY

February 13, 1985

Montana Petroleum Association
2030 11th Avenue, Suite 23
Helena, MT 59601

Attention: Darwin VanDeGraaff

Gentlemen:

RE: HB 636 - Tertiary Oil Recovery Bill

Celsius Energy and its affiliate corporations, Wexpro Company and Mountain Fuel Supply Company, are active oil and gas producers in Montana. We believe the captioned Bill will foster production of hydrocarbons in our operations. It will encourage initial drilling because it reduces the break-even point necessary for some marginal drilling into retrograde condensate reservoirs. Existing field production will be increased because lower levels of production will cover the lower tax rate of 2.5%, and still leave enough to pay operating costs.

From an analysis of our current and pending operations, it appears that we would be encouraged from the decreased tax to spend an additional $827,000 in 1985 on tertiary recovery facilities for existing wells and possibly more in future years. The tax reduction would also result in our drilling one additional 1985 well which would otherwise not be approved for drilling because of marginal economics.

We encourage the passage of HB 636.

Very truly yours,

Roland J. Gill Jr.

ckb

Exhibit 3
HB 636
2/15/85
Tucker Hill

POST ROCK OIL COMPANY

February 8, 1985

PROJECT 85
P.O. Box 923
Helena, MT 59624

ATTN: Tucker Hill

RE: HB 636

Mr. Chairman & Members of the House Taxation Committee:

I read with interest a copy of the proposed House Bill 636 regarding the incentive to produce oil by tertiary methods. I heartily support your efforts with HB 636 and hope you will recognize this letter as confirmation of my support. The incentive is much needed in our industry at present.

Very truly yours,

Henry Erebo

Henry Erebo
President
POST ROCK OIL COMPANY

HE/mh
cc Rep. Jack Sands
c/o Capitol Station
Helena, MT 59620

Exhibit 9
HB 636
2/15/85
Tucker Hill

Gary–Williams Oil Producer
115 Inverness Drive East • Englewood, Colorado 80112-5116 • (303) 799-3800

February 8, 1985

Mr. Tucker Hill
Director
The Oil & Gas Industry Working for
Montanans
P.O. Box 923
Helena, Montana 59624

Dear Tucker:

Gary-Williams Oil Producer would like to go on public record as being in support of Montana House Bill No. 636 as currently written.

Very truly yours,

GARY-WILLIAMS OIL PRODUCER

Bruce Richards
Director of Administration

BR/skb

cc: Ronald Williams
Frank Farnham

(15)

EXHIBIT 10
HB 636
2/15/85
Tucker Hill

FARMERS UNION CENTRAL EXCHANGE, INC.

CENEX "Where the customer is the company"

February 8, 1985

1601 Lewis Ave • Post Office Box 21479
Billings, Mont. 59104 • (406) 245-4747

Representative Gerry Devlin
Chairman
House Taxation Committee
Capitol Station
Helena, Montana 59620

RE: House Bill 636
Reduced Tax Rate on
Tertiary Production

Dear Mr. Chairman and Committee Members:

CENEX is an independent oil producer with a 40 year history of operations in the State of Montana. Our only exploration and production office is located in Billings where we employ a staff of approximately 85 people. CENEX is the 8th largest oil producer in the State of Montana and is continually engaged in the business of drilling for and producing oil and gas reserves. Our production staff is committed to the economic recovery of the ultimate barrel in every reservoir we operate.

In the past, we have participated in a limited number of tertiary recovery programs and we are the operator of one such project in Wyoming. As our producing areas become older and reservoirs depleted, more and more attention is being given to enhanced recovery methods. High operating costs, including taxes, of these projects necessitate severe economic scrutiny before investments can be risked.

You may be interested to know that the oil reserves of our nation are continuing to decline and, in spite of record drilling numbers during the past five years, this depletion has not been halted. New engineering techniques and tertiary programs will be required to bolster our national reserves. Latest figures indicate that the average producing well in our country yields 14 barrels of oil per day. More than 600,000 wells provide our present national daily rate of approximately 8.5 million barrels of oil. Enhanced capabilities become very significant considering this small yield per well.

In view of the above, CENEX vigorously supports House Bill 636 and respectfully urges your favorable consideration and adoption in order to encourage additional oil recoveries in the State of Montana.

Thank you.

Sincerely,
Exploration & Production

J. R. Keating
General Manager

10

Exhibit 11
HB 634
2/15/85

BACKGROUND INFORMATION:

INCREASING MONTANA'S OIL PRODUCTION

BY

ENCOURAGING ENHANCED RECOVERY PROJECTS

POTENTIAL IMPACTS

OF PROPOSED CARBON DIOXIDE PROJECT

IN EASTERN MONTANA'S CEDAR CREEK ANTICLINE

February 4, 1985

XAK850321

Exhibit 12
2/15/85
HB 636
Keys

TESTIMONY OF G. W. KEYS
TAX COMMITTEE - HOUSE OF REPRESENTATIVES
February 15, 1985

I am George W. Keys, manager of production administration for the Rocky Mountain Division of Shell Western E&P Inc. I am here today to speak in favor of House Bill 636, a proposal to encourage increased oil production in Montana by tertiary production methods.

Montana's oil industry is important to the state's economic well being. Montana ranks thirteenth in production among the oil and gas producing states. In 1983, oil and gas produced in Montana provided more than $44 million in revenue to the state from severance taxes and more than $100 million in royalty income to mineral owners. County Net Proceeds taxes were more than $75 million in 1982. More than 8,000 Montanans are employed in the oil and gas industry.

However, Montana's oil and gas production is declining, and the income generated by that oil and gas also is declining. In 1968, the peak year for production in the state, 48.5 million barrels of oil were produced. In 1983, oil production had dropped to 29.3 million barrels. It will continue to decline because few new oil fields are being discovered.

In our own oil fields at the Cedar Creek Anticline in eastern Montana, we expect oil production to decline about 50 percent in the next ten years. These oil fields represent about 25 percent of Montana's total oil production. My company currently represents about $60 million in economic impact annually in state severance taxes, local county Net Proceeds and property taxes, royalties, payrolls and purchases from Montana suppliers. Unless action is taken to increase oil production, that impact of about $60 million will be reduced by half by the mid-1990s.

The State of Montana and the oil industry face a crisis in energy production and revenue. However, we can work together as partners to minimize the effects of this crisis.

The oil industry is capable of producing more oil from existing fields through relatively new tertiary production methods. For the most part, these methods are experimental and very costly compared to more normal production methods. They require big investments at the beginning of the project and have much longer payout times than other production methods.

The federal government has recognized these factors by providing tax reductions on oil produced by tertiary methods. Several states also have passed laws in recent years to provide tax incentives to increase oil production and continue oil industry investment.

Montana can do the same by passing H.B. 636. The bill provides that additional oil produced by these more expensive methods (that is, the amount of oil beyond that which is produced by secondary recovery processes) would be taxed at a rate of 2 1/2 percent over the life of the project, or one-half the currently legislated rate (effective April 1985). The amount of oil that would have been recovered under secondary recovery processes would continue to be taxed at the currently legislated severance tax rate. It also mitigates negative impacts on Net Proceeds taxes at the county level from the large startup costs in the first few years of a project. It does this by the amortization of the cost of purchased carbon dioxide (CO_2) over 10 years.

CEDAR CREEK ANTICLINE PROJECT DESCRIPTION

We anticipate producing about 300 million barrels of oil in the Cedar Creek Anticline in eastern Montana using primary production and waterflood methods currently in use. We anticipate that flooding the oil fields with carbon dioxide will recover up to another 100 million barrels of oil. This is oil that would otherwise be left underground and could not be produced under current production methods.

Preliminary evaluation of the feasibility of using carbon dioxide to increase oil production at the Cedar Creek Anticline was completed in 1984. A pilot test to provide on-site research and analysis of carbon dioxide flooding in the Anticline was conducted by Shell Western in its South Pine Unit in Wibaux County. Pilot operations involving three wells begin in February 1984. Carbon dioxide was injected during August-October 1984. Shell Western then began waterflooding to produce all of the oil generated in the reservoir by the carbon dioxide. Completion of pilot operations is expected in the next few weeks.

Engineering research and evaluation of data acquired during pilot operations is expected to be completed by about May 1985. This evaluation will help Shell Western to determine whether the project is technically feasible. It will provide data that can be used to make more accurate predictions about oil recovery using the carbon dioxide injection process.

Shell Western E&P plans to have completed its evaluation of potential sources for carbon dioxide by mid-year. Two major sources are being considered at this time. Although the exact cost is still unknown, we know that it will be very expensive.

Shell Western expects to have all of the information it needs to make a final decision about whether to go ahead with the full-scale carbon dioxide project in Montana sometime in the second half of 1985.

ECONOMICS

From a financial and technical standpoint, the oil industry views carbon dioxide projects as high-risk, economically marginal ventures. They are very expensive, requiring huge front-end expenditures. Operating expenses are significantly greater than for waterflood projects. Payout time is about 10 years or more -- about twice waterflood project payout. And CO_2 is still an emerging technology.

We've made our preliminary projections of the Cedar Creek Anticline project's economics based on the best knowledge we had at the time. These are based on constant 1984 dollars, with no inflation included and constant oil prices.

Under current conditions with reasonable projections of the key factors necessary for a successful project, we believe the project is only marginal. We have to be very optimistic about one or more of these factors and the future economic environment for the project to be economically justified compared to other investment opportunities by the company.

The key factors are total oil recovered, carbon dioxide source and cost, price of oil, and tax level. I mentioned that we expect total oil recovery to be up to as much as 100 million barrels. It could be more or less. We do have some flexibility on this factor, but a large minimum oil reserve is necessary.

I've mentioned that carbon dioxide is still an unknown as far as the source and the cost. Future oil price also is a major unknown, but we must plan for a real growth in the price of oil to make the project economical. That is, the price of oil must increase faster than the inflation rate. Oil has been declining rapidly in price in recent months and is now about $25 per barrel. This is certainly going to have a negative influence on our management's decision about this project.

Tax treatment is the other main factor that will affect our decision on the project. The federal government's reduction in windfall profits tax on tertiary oil production is significant. But this benefit is diminished under current oil price trends. Other states have provided severance tax reductions to increase oil production. Louisiana, Mississippi and Kansas have tax incentives laws in effect, and similar laws are being considered now in Wyoming, New Mexico and Texas, in addition to Montana.

CONCLUSIONS

H.B. 636 is designed to provide economic incentive to the oil industry to produce more oil in Montana. It also will prevent significant adverse effects on state or local revenues.

The benefit of this bill to the oil industry depends on results. The amount of the benefit depends on the amount of additional oil produced. Other incentives could be designed to give more benefit up front, and frankly, these would be more desirable from industry's standpoint.

But this bill has been designed so that both the state and the oil industry will share in the revenues from additional production. Also, state and local governments will not have significant adverse impacts.

Let me repeat that this project is risky. We need all of the encouragement we can get to help reduce the investment risk of the project. We need the tax incentive provided in this bill.

While some inflation in oil prices is probable, the costs of this type of project (particularly the carbon dioxide costs) also will inflate, thus reducing much of the benefit of a normal oil price increase. Some oil price increase is necessary to make the projects viable.

The time for a decision is now. Our Cedar Creek Anticline project must be started soon if it is to be done. We cannot do the project later because of technical and economic reasons.

Government and industry can work together on this project for the good of all. A reduction in the severance tax on this additional oil production will result in many benefits for Montanans:

- Specifically, CO_2 flooding would extend the producing life of Cedar Creek Anticline reservoirs by about 50 years and result in a peak incremental production of about 10,000 barrels per day.
- Capital investment by industry for this project alone would be about $225 million. Operating expenses over the life of the project are estimated to be an additional $1.1 billion, including more than $500 million for purchased CO_2.*
- The State of Montana would receive about $60 million additional severance tax income from CO_2 incremental production (based on 2.5% incremental oil severance tax rate).*
- An estimated $135 million in additional net proceeds taxes would be paid to eastern Montana counties from CO_2 projects in the Cedar Creek Anticline (based on current mill levies).*

Your favorable decision on this bill will bring Shell Western one step closer to making the decision that will result in significant new investments in eastern Montana within a few years to increase oil production.

Thank you for considering our viewpoints.

*Based on 1984 dollars and crude price of $27.94

Exhibit 14
HB636
2/15/85
Boedecker

Glendive Forward Of Montana

HOUSE BILL 636

Dear Mr. Chairman:

Glendive Forward wishes to state its position as a proponent to House Bill 636. It is Glendive Forward's firm desire that this piece of legislation be passed as drafted for the following reasons:

1) It will create an opportunity for CO2 and other tertiary recovery methodology which to date have been absent in the state of Montana.

2) It will create a substained economic base in regards to oil recovery in that without tertiary recovery a substantial amount of oil fields in the state of Montana will be abandoned, thus creating substantial loss of revenue to the state and critically affecting the employment base in those counties where oil and gas activity is present.

3) The legislation would enable Shell Oil Company to move ahead with their CO2 project along the Cedar Creek Anticline thus improving the economic base of the four (4) counties which are affected by this project and creating an additional revenue stream into the state of Montana for an additional potential 50 years which would not happen unless Shell proceeds with the tertiary recovery program.

4) This legislation will also indicate to the oil and gas industry that Montana is willing to cooperate with this industry in regards to enhancing the revenues as well as creating opportun-

(14)

ities for the industry to recover additional reserves which otherwise would be left in the ground.

5) Montana's oil production has been constantly following a downward curve since its peak in 1968 of 48.5 million barrels of oil to an estimated 29 million barrels of oil in 1983. Withouttertiary recovery this downward decline will not stop.

A) For an example, in CO2 recovery of the Cedar Creek Anticline, could recover an additional 100 million barrels of oil that would not be recovered under the present secondary recovery method.

B) Because of the capital investment and high risk associated with CO2 recovery, without tax incentive the companies would not be able to initiate said programs especially with the declining market value of crude oil which we all know from its peak in 1981 of approximately $40 a barrel to the present price which now lingers around $27 a barrel.

6) Through this legislation the state can help itself in issuing continuing energy supply and revenue by providing the necessary tax incentives now to encourage the industry to make these substantial captial commitments.

A) An example is that it is projected that the Shell CO2 recovery project will cost in excess of $1 billion. If you could just imagine what a bright hope an economically depressed area that we in eastern Montana are in, that this project holds for us is hard to express.

In closing, it is our fervent hope that the Montana Legislature and more specifically, your House Taxation Committee, perceives this

great opportunity and votes in favor of enacting this proposed legislation as presented.

Exhibit 15
HB 636
2/15/85

TABLE 1
TAXABLE VALUE IN FALLON COUNTY DUE TO SHELL

Year	Waterflood (millions)	CO2: 1 year (millions)	CO2: 10 year (millions)
1984	84.7		
1985	78.1	CO2 Injection begins in 1987	
1986	71.0		
1987	64.3	45.0	45.0
1988	58.1	14.9	50.6
1989	51.2	8.5	39.9
1990	44.7	10.8	37.2
1991	38.8	21.8	41.4
1992	35.6	30.0	44.8
1993	32.1	44.9	53.6
1994	28.4	47.2	51.1
1995	24.2	51.1	49.6
1996	20.9	48.5	43.0
Average from 1987 to 1996:			
	39.83	32.27	45.62

TABLE 2
TAXABLE VALUE OF FALLON COUNTY

Year	Waterflood (millions)	CO2: 1 Year (millions)	CO2: 10 Year (millions)
1984	115.7 (actual)		
1985	109.1	CO2 Injection begins in 1987	
1986	102.0		
1987	95.3	76.0	76.0
1988	89.1	45.9	81.6
1989	82.2	39.5	70.9
1990	75.7	41.8	68.2
1991	69.8	52.8	72.4
1992	66.6	61.0	75.8
1993	63.1	75.9	84.6
1994	59.4	78.2	82.1
1995	55.2	82.1	80.6
1996	51.9	79.5	74.0
1987-1996 Average			
	70.83	63.27	76.62

TABLE 3
MILL LEVY IN FALLON COUNTY

Year	Waterflood (millions)	CO2: 1 year (millions)	CO2: 10 year (millions)
1984	85.8		
1985	91.0	CO2 Injection begins in 1987	
1986	97.3		
1987	104.1	130.6	130.6
1988	111.4	216.2	121.6
1989	120.7	251.3	140.0
1990	131.1	237.4	145.5
1991	142.2	188.0	137.1
1992	149.0	162.7	130.9
1993	157.3	130.8	117.3
1994	167.1	126.9	120.9
1995	179.8	120.9	123.1
1996	191.2	124.8	134.1
Average from 1987 to 1996:			
	145.39	168.96	130.11

TABLE 4
COLLECTIONS FOR STATEWIDE LEVIES
BASED ON TOTAL TAXABLE VALUE OF FALLON COUNTY
(University Levy and School Foundation Program)

Year	Waterflood (millions)	CO2: 1 year (millions)	CO2: 10 year (millions)
1984	$5.900		
1985	5.564		
1986	5.202		
1987	4.860	3.876	3.876
1988	4.544	2.341	4.162
1989	4.192	2.015	3.616
1990	3.861	2.132	3.478
1991	3.560	2.693	3.692
1992	3.397	3.111	3.866
1993	3.218	3.871	4.315
1994	3.029	3.988	4.187
1995	2.815	4.187	4.111
1996	2.647	4.055	3.774
Total from 1987 to 1996:	36.12	32.27	39.08

TABLE 5
STATE OIL SEVERANCE TAX COLLECTIONS
UNDER VARIOUS TAX RATES

YEAR	H2O ONLY AT 5%	H2O+CO2 AT 5%	CO2 INCREMENT AT 2.5%	H2O ONLY PLUS AT 5%+2.5%
1984	8.7	8.7		
1985	8.6	8.6		
1986	8.2	8.2		
1987	7.5	6.7		
1988	6.8	6.4		
1989	6.3	7.0	.3	6.6
1990	5.7	7.5	.9	6.6
1991	5.3	8.3	1.5	6.8
1992	4.7	8.5	1.9	6.6
1993	4.1	8.3	2.1	6.2
1994	3.7	8.1	2.2	5.9
1995	3.3	7.9	2.3	5.6
1996	2.9	8.0	2.5	5.4
TOTAL	36.0	63.6	13.7	49.7

was a large company in Oregon handling five northwest states, including Montana and Oregon is not centrally located.

There were no further questions.

Representative Harbin stated that this is something that is going to be worthwhile to the people of the state of Montana and he offered some amendments to this bill. See Exhibit 2.

The hearing on this bill was closed.

EXECUTIVE SESSION:

DISPOSITION OF HOUSE BILL 636: Representative Abrams moved adoption of the amendments that would make the original bill conform to the grey bill. The motion carried unanimously.

Representative Abrams moved that this bill DO PASS AS AMENDED; and said that they are proposing to go ahead with CO^2 injection and they will regain about 17% of the oil, as he understands the bill.

Representative Cohen moved to amend the bill by changing the percentage from 2.5% to 4%. Representative Abrams indicated that he would oppose the amendment and it is his understanding from talking to the oil people and the people involved in writing this bill, that it is very marginal as to whether they are or are not going on this project.

Representative Keenan commented that she would support the amendment as she was under the impression that there are presently tertiary projects going on in Montana.

Chairman Devlin noted that they should keep in mind that this is increasing production that they never are going to have without this process.

Representative Asay said that he thought there was a moral obligation to recover as much of the oil that is down there as possible for other people, other states and the whole world.

Representative Raney stated that he was in favor of the amendment as 70% of the oil is staying in the ground right now and they are presently in an oil glut so there is no real pressure to go after that oil.

Representative Gilbert explained that when these wells go down, they have to plug the wells, because they cannot afford to pay the property tax and that well is abandoned; then if someone wants to go back in there (and it is very doubtful that they will) you are looking at least $1 million per hole so they are talking about $400 million to see if the system will work.

Representative Hanson advised that their county was loosing 1800 barrels a day this year and at $26.00 per barrel, that is $46,800 a day and that is over $12 million a year of taxable valuation for our county. She indicated that their county gives over $2 million a year to the state and they get nothing back so if you take those 1800 barrels a day and give a 2½% break to them, it will be a lot less than $2 million they are sending away right now.

Representative Raney commented that that would be if she is accepting the fact that they have to have this break and he did not believe that.

Representative Sands indicated that that is the crucial question - whether they are going to go ahead with this recovery without the tax break and he asked what the tax rate in tertiary recovery compared to other states is.

Representative Switzer pointed out that what they are hearing here is exactly what gives Montana the business image it has - absolutely negative.

Representative Cohen explained that what this amendment does is if there are price changes per barrel of oil, it does not all go to the oil company - it gets taken

up by all those people who provide services and with a 20% reduction, this will leave them with 25 cents instead of 67 cents for those various suppliers and companies.

A vote was taken on the amendment and it failed with Representative Cohen, Representative Koehnke, Represenative Raney and Representative Schye voting yes.

Representative Sands said that he had some questions in his mind that he would like to get the answers to and he would like to take a day or two to get some answers.

Representative Switzer informed the committee that Kansas has a 4% exemption, Mississippi has a 50% exemption, and Wyoming has a 1/3 exemption, but they do not have any personal property tax.

Representative Williams moved to postpone disposition of this bill. The motion failed with a 7 to 7 vote. See Roll Call Vote.

Representative Cohen withdrew his objections to letting Mr. Oppendahl answer any questions.

Representative Sands asked if he could tell them what the effective tax rates are on tertiary recovery in the neighboring states.

Jim Oppendahl, representing the Governor's Office of Budget and Planning, responded that as far as he knows at this point, North Dakota's severance tax rate on oil does not provide an incentive on tertiary recovery; neither does Wyoming although they had a bill in this session that would have permitted a drop from 6% to 4% on some tertiary recovery. He indicated that he had not seen it and he did not know if it passed.

Representative Sands asked without the incentive, what is the effective tax rate on those two states.

Mr. Oppendahl answered that it is comparable to Montana if you look at the property tax and the severance tax.

He continued that the information he has for Wyoming is that the rate is between 13.7 and 15.7 of gross value on one acre; and in Montana, it is around 12.6 to 13 depending on the local property tax; and in North Dakota, it is about 12.8% of gross. He advised that all of the states differ in terms of what the base is and it depends on the local property tax base; but on the average, they are all about the same.

Representative Sands asked if these figures include gross proceeds tax as well as other taxes.

Mr. Oppendahl replied, "Yes."

Representative Gilbert asked if, to his knowledge, does North Dakota have any tertiary recovery.

"Not to my knowledge," he answered, but they would have under the Shell project, which is a little tiny piece in North Dakota and he assumes that this is similar to Montana - it is a new process and they have a potential like Montana - nationally, it is 6% of current production.

Representative Gilbert asked if he would guess that that is why they do not have anything on the books now is because they do not have any tertiary recovery.

Mr. Oppendahl responded that he thought that was true - most of the states (3) that have specific incentives have been passed in the last two or three years although there is a major CO^2 project in Texas where there is no incentive.

Representative Gilbert asked if Wyoming has any large tertiary recovery systems.

"To my knowledge, nothing is going on," Mr. Oppendahl replied.

Representative Gilbert inquired if this would explain why they do not have legislation to that effect.

Mr. Oppendahl advised that this may explain it; they may not have been approached. He indicated that Kansas is a state that recently has passed an incentive.

Representative Williams noted that the fiscal note said that it was assumed that the tertiary recovery projects would proceed without the reduced severance tax and he asked if it was necessary to have a 2½% incentive in order to continue this based on the knowledge they have at the present time.

Mr. Oppendahl responded that this was a good question and it depends on the economics, the particular kind of reservoir, the potential in that reservoir and the prices of all the kinds of incentives that are available at the federal level as to whether or not it is economical or feasible. He informed the committee that there are a couple small tertiary projects in Montana that are going on now (the larger one is the Belle Creek in Powder River County) and there were federal incentives that were availble under tertiary recovery that removed oil from a 70% windfall profits tax when they begun the project to a 30% rate, which is substantial.

Chairman Devlin asked what they were using in the Belle Creek project.

Mr. Oppendahl advised that they were using augmented water flood, which is basically a soap they inject in the ground and this allows the oil to wash out with the water flood. He explained that in the Belle Creek field, the expenses that were written off against the county net proceeds in 1982 amounted to about $13 million, so it is an expensive process.

Representative Ellison asked at what rate of production does the federal reduction apply.

Mr. Oppendahl responded that the system that the feds have for the incentive under tertiary recovery is fairly complicated and basically, when they begin a project on tertiary, you have to have what they call a not insignificant increase in oil recovery and they have rules

that define that; they are not talking about the number of barrels per day and they follow the same language that allows these kinds of projects. Once they are in that, they move all their secondary oil and their tertiary oil to one tax rate.

Representative Schye inquired if they use this teriary recovery in the Shelby or Cut Bank area.

Mr. Oppendahl answered that he did not know of any that was up there and in Cut Bank, they were using an enhanced recovery system but it is not qualified for tertiary.

Representative Williams noted on page 4 of the bill that it said, "the term, "incremental petroleum and other mineral or crude oil" means the amount of oil, as determined by the board of oil and gas conservation, to be in excess of what would have been produced by primary and secondary methods."

Mr. Oppendahl explained that the federal system allows from the nature of the way the calculations are made that all the oil would be tertiary, but this bill simply says that they must tell what the secondary oil is going to be at the end of the project, and any increment above that line is the oil that qualifies for the lower tax rate.

Representative Sands questioned if he knew where the break-even point on oil prices are.

Mr. Oppendahl answered that Shell provided some information earlier this summer, but most of it is confidential. He advised that the numbers they used for calculating relief under this bill and for the project to go are $27.94 for oil and at that price, they were talking about the project being marginally economical.

Represenative Keenan moved to amend the bill to require any firm that utilizes this credit to submit, upon request, all relevant financial information to the Department of Revenue. She indicated that they do not have the facts whether this incentive will work or not and

primarily, the tertiary recovery keeps going up because the price of oil goes up or the tertiary recovery goes up because of cheaper technology and they do not have those facts of whether it was the incentive or whether it was because that other factors entered in.

Representative Williams indicated that he would like to support this legislation because he feels that it is important to get as much oil as possible, but he agrees with Representative Keenan.

Representative Sands indicated he would have to oppose the amendment as it is too broadly written and if it were more narrowly written, he could support it.

Representative Gilbert wondered if this could be worded to only address the tertiary recovery portion of their financial records.

Representative Keenan responded that she does not have as much problem with that as she is curious about which deductions can be written off.

Representative Keenan asked Mr. Oppendahl how much of that information would be available from Shell Oil, for instance.

Mr. Oppendahl replied that he thought there would be some information available on net proceeds that the auditors would have access to and he did not know how much would be available to the legislature as a policy making policy. He continued that it would be difficult as this would separate secondary recovery from tertiary and the federal system does not do that and they would be mixing a couple different systems and their financial information does not separate it.

Representative Keenan asked the same question of Dan Bucks, the Deputy Director of the Department of Revenue, who responded that the net proceeds return gives them the gross value by lease (and the lease can cover more than one well) and then gives the deductions from the gross value. He continued that the net proceeds return will not segregate the costs between primary and secondary recovery versus tertiary recovery. He advised that

they conduct audits of a certain portion of the taxpayers under the net proceeds tax and the work papers are confidential information and the only matter that is of public record is the amount of changes to the original return that is filed.

Representative Williams asked if they pass this bill, then they will have to have a separate set of books, would they not.

Mr. Bucks answered that in terms of the severance tax, he did not believe that the 2½% reduction would give them any information on the return as to the cost of producing that tertiary oil.

Chairman Devlin asked if they would know how much would qualify for the 2½%.

Mr. Bucks responded that they would, but they would not know the cost of producing that.

Mr. Oppendahl explained that if they were able to get the information that Representative Keenan was talking about, they would still have only one-half of the equation and what they really want is how much they are going to make per barrel given all their expenses on secondary, assuming they don't do tertiary. Then they have to know what they are going to make per barrel on tertiary so they really need two different elements to make that policy decision. He continued that they may be able to get the tertiary records from them, but they still have to make the judgment of what would they have made on secondary.

Chairman Devlin stated that the language on the bottom of page 4 and the top of page 5 should give them the amount that falls under the 2½% severance.

Representative Keenan indicated that she wanted her amendment to address two things - the secondary production and the tertiary.

Mr. Bohyer asked if she wanted this available to the department and upon request, to the legislature, to which she responded, "Yes".

A vote was taken on the proposed amendment by Representative Keenan and it failed with 6 voting aye and 8 voting no. See Roll Call Vote.

A vote was taken on the DO PASS AS AMENDED motion and it carried with a vote of 10 ayes and 4 noes. See Roll Call Vote.

DISPOSITION OF HOUSE BILL 787: Representative Switzer moved the adoption of the amendments (Exhibit 3) and Mr. Bohyer explained them to the committee. The motion carried unanimously.

Representative Hanson moved that the bill DO PASS AS AMENDED. Representative Cohen made a substitute motion that this bill DO NOT PASS, AS AMENDED.

Representative Williams said that he agreed with the do-not-pass motion and a small amount is not going to make that much difference and the total fiscal impact is great enough that he did not think they could afford it at this time.

Representative Abrams stated that 5% of nothing is nothing and a reduced amount is something and a lot of these wells are very marginal, and if they show $1.00 a day profit that might keep them going.

A vote was taken on the DO-NOT-PASS-AS-AMENDED motion, and it failed with a vote of 6 ayes and 8 noes. See Roll Call Vote. Without objection, the vote was reversed on a DO-PASS-AS-AMENDED motion.

Representative Schye moved to amend the bill down from 10 to 7 barrels. There was some discussion on the amendment and a vote was taken and it failed with 6 voting aye and 8 voting no. See Roll Call Vote.

DISPOSITION OF HOUSE BILL 689: Representative Williams moved that this bill DO NOT PASS. Representative Gilbert moved that they TABLE the bill. The motion carried unanimously.

STANDING COMMITTEE REPORT

March 5, 1985

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 636

first reading copy (white color)

REDUCED TAX RATE ON PETROLEUM PRODUCED BY TERTIARY RECOVERY METHODS;

Respectfully report as follows: That HOUSE Bill No. 636

be amended as follows:

1. Title, line 6.
Following: "TERCENT;"
Strike: "ALLOWING"
Insert: "REQUIRING"

2. Title, line 7.
Following: "OF THE"
Strike: "DEDUCTION FOR THE"
Following: "COSTS OF"
Strike: "CARBON DIOXIDE"
Insert: "NECESSARY CHEMICAL SUPPLIES"

3. Page 3, line 16.
Following: "gas"
Insert: "used in an approved tertiary recovery project"

DO PASS

Chairman.

STATE PUB. CO.
Helena, Mont.

COMMITTEE SECRETARY

19

4. Page 5, line 3.
Following: "methods."
Insert: "The determination arrived at by the board must be made only after notice and hearing and shall specify through the life of a tertiary project, calendar year by calendar year, the combined amount of primary and secondary production that must be used to establish the incremental production from each lease or unit in a tertiary recovery project."

5. Page 8, line 10.
Following: "for"
Strike: "carbon dioxide"
Insert: "necessary chemical supplies"

6. Page 8, lines 12 and 13.
Following: "shall"
Strike: the remainder of line 12 and line 13 in its entirety
Insert: "require that the necessary chemical supplies, which include but are not limited to carbon dioxide supplies, be amortized over a 10-year period"

AND AS AMENDED
DO PASS

GERRY DEVLIN, Chairman.

STATE PUB. CO.
Helena, Mont.

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of Montana

BILL NO	REFER DATE	HEARING DATE	CONSIDERATION DATES	COMMITTEE ACTION	REREFERRED TO COMM	DATE OUT
HB0580	2/19	3/19	3/21	CONCUR		3/21
DARKO, PAULA A.			AUTHORIZING COUNTY FUNDING OF SEARCH AND RESCUE UNITS			
HB0596	2/15	3/21		CONCUR AS AMENDED		3/21
DONALDSON, GENE			EXEMPT FARMERS' MARKET ASSOC. FROM CORPORATE LICENSE TAX PROVISIONS			
HB0607	3/28	4/11	4/17, 4/17	CONCUR		4/17
QUILICI, JOE			PRODUCTION INCENTIVE TAX CREDIT TO COAL SEVERANCE TAX			
HB0616	3/05	3/26	3/27	CONCUR AS AMENDED		3/27
BROWN, JAN			AUTHORIZING CREATION OF BUSINESS IMPROVEMENT DISTRICTS			
HB0625	2/14	3/19	3/20, 4/5	CONCUR AS AMENDED	TAXATION	4/5
COHEN, BENJAMIN R.	(BEN)		INCREASED ASSESSMENT OPTIONS FOR STREET MAINTENANCE DISTRICTS			
HB0625	4/10		4/15	CONCUR AS AMENDED		4/15
COHEN, BENJAMIN R.	(BEN)		INCREASED ASSESSMENT OPTIONS FOR STREET MAINTENANCE DISTRICTS			
HB0636	3/11	4/03	4/16	CONCUR AS AMENDED		4/16
ABRAMS, HUBERT J.			REDUCED TAX RATE ON PETROLEUM PRODUCED BY TERTIARY RECOVERY METHODS			
HB0651	4/03	4/16	4/16	TABLED		4/16
WINSLOW, CAL			TAX ALCOHOLIC BEVERAGES TO FUND JAIL CONSTRUCTION BONDS PROGRAM			
HB0652	3/20	4/03		CONCUR		4/3
SWITZER, L. DEAN			ALLOWING RECLAMATION AND ADMINISTRATIVE COSTS DEDUCTED FROM NET PROCEEDS			
HB0693	4/03	4/09	4/17	TABLED		4/17
KOEHNKE, FRANCIS			EXEMPTING CERTAIN AGRICULTURAL IMPROVEMENTS FROM TAXATION - WELLS & SEWERS			
HB0696	3/04	3/26	4/4, 4/5, 4/17	CONCUR AS AMENDED		4/17
KITSELMAN, LES			DEPT OF REVENUE REQUIRED TO AMEND RULE ON CENTRALLY ASSESSED PROPERTY			

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

April 3, 1985

The sixty-third meeting of the Senate Taxation Committee was called to order at 8:05 am by Chairman Thomas E. Towe in Room 413-415 of the State Capitol.

ROLL CALL: All members of the committee were present at roll call except Senator Brown who arrived at 8:17 am.

CONSIDERATION OF HB 652: Representative Dean Switzer, House District 28, was recognized as chief sponsor of the bill. The bill would allow reclamation as a deduction when figuring net proceeds taxes on nonmetal mines. He said these deductions are currently allowed by the Department and currently do not affect these mines because they are not yet at the reclamation stage.

PROPONENTS

Mr. Gary Langley, executive director of the Montana Mining Association, listed the mines that would be affected. He said that existing revenue will not be affected. He said the bill is not opposed by the Department or by the counties in which the companies operate.

Mr. Earl Lovick, W. R. Grace and Co., said that the law requires that the land be reclaimed to existing or better use. He said the present law on the matter of the deduction is silent. He said this would avoid any controversy when the time comes to deduct reclamation costs.

OPPONENTS

None were heard.

Questions from the committee were called for.

Senator Towe asked Mr. John LaFaver, Director of the Department of Revenue, if these costs were currently allowed. Mr. LaFaver said, yes. Mr. Don Hoffman of the Department of Revenue clarified that they are allowed under Section 2, sub b or sub c. He said Section 1 covers extraction costs. He said that no reclamation is currently being done. Mr. LaFaver said the bill will not change how these mines are assessed.

Senator Lybeck inquired about the general health of mining. Mr. Langley said that some companies are looking here for new mines. He said that mining has been suffering because of the price of metals. He said most industry people are optomistic. He noted that the tax has been increased for every session of the last decade.

Senator Eck clarified that the reason no reclamation is taking place now is that it is not timely.

Senator Mazurek asked why subsection J was stricken. Representative Switzer said it couldn't get enough votes. Senator Towe said the problem was that expenses incurred outside the state were being claimed. Senator Mazurek noted that this would tie taxation to Montana operations.

Mr. LaFaver said that the Department had not been enthusiastic about the bill as it was introduced. He said the bill said that administrative costs couldn't exceed 5 percent. He noted that W. R. Grace is currently in litigation with the Department for a claim far less than that. He said to keep the bill revenue neutral the figure would be .5 to 1 percent. Senator Towe said that these costs are disallowed in all other net proceeds deductions.

In closing, Representative Switzer said there is a need for the bill in terms of the long range planning of the mines. He said that to make the language statutory would be clarifying.

MOTION: Senator Halligan moved that HB 652 be concurred in. The motion carried unanimously. Senator Halligan volunteered to carry the bill.

CONSIDERATION OF HB 636: Representative Hubert Abrams, House District 14, was recognized as chief sponsor of the bill. He said that the bill requests a reduction in oil severance tax for oil produced by tertiary recovery methods. He said that the tertiary methods are most expensive and that the initial capitalization costs are very high. The advantage of using them is that the life of the mine is extended. He said the state would realize more in the long run in terms of employment and taxes. He said the bill had been worked on by the oil companies, the governor's office, the counties involved and the local communities.

PROPONENTS

Mr. Tucker Hill, representing Project 85, an organization of 80 oil and gas operators said they were instrumental in the development of of the Cedar Creek Anticline which would be the area where the tertiary methods would be used. He presented the committee with Exhibit 1 which explains the project involved.

He said that local governments supported the bill without exception. He said the bill extends the life of the existing fields and will recover about 50 percent more oil from the ground.

Mr. Jerome Anderson, Shell Western, referred to page 18 of Exhibit 1. He said the reduction in severance would only effect the incremental production indicated on that chart. He said there is serious question about whether Shell will continue with the project if the tax break is not available. This bill he said is an essential part of the whole project. He said the bill is acceptable to everyone.

Mr. George Keys, manager of production administration for the Rocky Mountain Division of Shell Western submitted written testimony (Exhibit 2).

Representative Marge Hart, House District 23, said that she was speaking in behalf of Glendive Forward, a group of independent businessmen. She said they support HB 636 whole heartedly. She said there will be immediate benefit in the area and the whole state. She said it would help stabilize the employment base in the area.

Representative Dean Switzer, House District 28, said that he concurred with Representative Hart's testimony.

Mr. Mike Stevens, representing the Association of Oil, Gas and Coal Counties, said that the amoritization amendment is essential or the tax base could be reduced in Fallon County by 50 to 60 percent.

Mr. Jim Stanton, representing Progress Baker and Fallon County, submitted written testimony in support of the bill. Mr. Stanton, superintendent of schools in Baker, said that speaking for the Board of Trustees, they can handle the impacts of the bill (Exhibit 3).

Mr. Mike Micone, Western Environmental Trade Association, spoke as a proponent of the bill.

Ms. Mary Cramer, Exxon Co., USA, said that without markets the pipeline that Exxon is building from Montana to North Dakota would not go through. She said that would represent $50 million invested in Montana and substantial local hiring.

Mr. Dale Kenitzer, representing Progress Baker, read a letter into the record (Exhibit 4).

Mr. Darwin Vandegraff, Montana Petroleum Association, said that his full membership endorses the bill. He said it represented maximum production and conservation to use an existing well to its full extent.

Mr. William Duffield, Fallon County Commissioner, said that his county and Wibaux County are strongly in favor of the bill. He said they need amortization.

Senator Larry Tveit, Senate District 36, said that 70 percent of the available oil is still in the ground. He said it is expensive to recover and Shell Oil needs the incentive which will result in jobs and an economic boost for the state.

Speaking neither as a proponent or an opponent, Mr. John LaFaver, Director of the Department of Revenue said that there are two elements in the bill. First, he said the amortization is essential. He said that whether a tax break is needed is arguable. He said if the price of oil rises it would be a profitable venture even without a tax break. He said the committee should be certain that the break is provided at the appropriate level.

Senator Goodover, Senate District 20, rose in support of the bill in behalf of the Great Falls Chamber of Commerce.

ROLL CALL

SENATE TAXATION COMMITTEE

49th Legislative Session -- 1985

Date April 3, 1985

Location -- Room 413-415

Name	Present	Absent	Excused
Senator Brown	8.17		
Senator Eck	✓		
Senator Goodover	✓		
Senator Hager	✓		
Senator Halligan	✓		
Senator Hirsch	✓		
Senator Lybeck	✓		
Senator Mazurek	✓		
Senator McCallum	✓		
Senator Neuman	✓		
Senator Severson	✓		
Senator Towe	✓		

BACKGROUND INFORMATION:

INCREASING MONTANA'S OIL PRODUCTION
BY
ENCOURAGING ENHANCED RECOVERY PROJECTS

POTENTIAL IMPACTS
OF PROPOSED CARBON DIOXIDE PROJECT
IN EASTERN MONTANA'S CEDAR CREEK ANTICLINE

Exhibit 1 -- HB 636
April 3, 1985

February 4, 1985

XAK850321

TESTIMONY OF G. W. KEYS
SENATE TAX COMMITTEE
April 3, 1985

I am George W. Keys, manager of production administration for the Rocky Mountain Division of Shell Western E&P Inc. I have worked for Shell Oil Company and its subsidiaries for 28 years in various assignments related to operations, engineering, research and economics. I am here today to speak in favor of House Bill 636, a proposal to encourage increased oil production in Montana by tertiary production methods.

Montana's oil industry is important to the state's economic well being. Montana ranks thirteenth in production among the oil and gas producing states. In 1983, oil and gas produced in Montana provided more than $44 million in revenue to the state from severance taxes and more than $100 million in royalty income to mineral owners. County Net Proceeds taxes were more than $75 million in 1982. More than 8,000 Montanans are employed in the oil and gas industry.

However, Montana's oil and gas production is declining, and the income generated by that oil and gas also is declining. In 1968, the peak year for production in the state, 48.5 million barrels of oil were produced. In 1983, oil production had dropped to 29.3 million barrels. It will continue to decline because few new oil fields are being discovered.

In our own oil fields at the Cedar Creek Anticline in eastern Montana, we expect oil production to decline about 50 percent in the next ten years. These oil fields represent about 25 percent of Montana's total oil production. My company currently represents about $60 million in economic impact annually in state severance taxes, local county Net Proceeds and property taxes, royalties, payrolls and purchases from Montana suppliers. Unless action is taken to increase oil production, that impact of about $60 million will be reduced by half by the mid-1990s.

The State of Montana and the oil industry face a crisis in energy production and revenue. However, we can work together as partners to minimize the effects of this crisis.

The oil industry is capable of producing more oil from existing fields through relatively new tertiary production methods. For the most part, these methods are experimental and very costly compared to more normal production methods. They require big investments at the beginning of the project and have much longer payout times than other production methods.

The federal government has recognized these factors by providing tax reductions on oil produced by tertiary methods. Several states also have passed laws in recent years to provide tax incentives to increase oil production and continue oil industry investment.

Exhibit 2 -- HB 636
April 3, 1985

XA0850492

Montana can do the same by passing H.B. 636. The bill provides that additional oil produced by these more expensive methods (that is, the amount of oil beyond that which is produced by secondary recovery processes) would be taxed at a rate of 2 1/2 percent over the life of the project, or one-half the currently legislated rate (effective April 1985). The amount of oil that would have been recovered under secondary recovery processes would continue to be taxed at the currently legislated severance tax rate. It also mitigates negative impacts on Net Proceeds taxes at the county level from the large startup costs in the first few years of a project. It does this by the amortization of the cost of purchased carbon dioxide (CO_2) over 10 years.

CEDAR CREEK ANTICLINE PROJECT DESCRIPTION

We anticipate producing about 300 million barrels of oil in the Cedar Creek Anticline in eastern Montana using primary production and waterflood methods currently in use. We anticipate that flooding the oil fields with carbon dioxide will recover up to another 100 million barrels of oil. This is oil that would otherwise be left underground and could not be produced under current production methods.

Preliminary evaluation of the feasibility of using carbon dioxide to increase oil production at the Cedar Creek Anticline was completed in 1984. A pilot test to provide on-site research and analysis of carbon dioxide flooding in the Anticline was conducted by Shell Western in its South Pine Unit in Wibaux County. Pilot operations involving three wells began in February 1984. Carbon dioxide was injected during August-October 1984. Shell Western then began waterflooding to produce all of the oil generated in the reservoir by the carbon dioxide. Completion of pilot operations is expected in the next few weeks.

Engineering research and evaluation of data acquired during pilot operations is expected to be completed by about May 1985. This evaluation will help Shell Western to determine whether the project is technically feasible. It will provide data that can be used to make more accurate predictions about oil recovery using the carbon dioxide injection process.

Shell Western E&P plans to have completed its evaluation of potential sources for carbon dioxide by mid-year. Two major sources are being considered at this time. Although the exact cost is still unknown, we know that it will be very expensive.

Shell Western expects to have all of the information it needs to make a final decision about whether to go ahead with the full-scale carbon dioxide project in Montana sometime in the second half of 1985.

XA0850492

ECONOMICS

From a financial and technical standpoint, the oil industry views carbon dioxide projects as high-risk, economically marginal ventures. They are very expensive, requiring huge front-end expenditures. Operating expenses are significantly greater than for waterflood projects. Payout time is about 10 years or more -- about twice waterflood project payout. And CO_2 is still an emerging technology.

We've made our preliminary projections of the Cedar Creek Anticline project's economics based on the best knowledge we had at the time. These are based on constant 1984 dollars, with no inflation included and constant oil prices.

Under current conditions with reasonable projections of the key factors necessary for a successful project, we believe the project is only marginal. We have to be very optimistic about one or more of these factors and the future economic environment for the project to be economically justified compared to other investment opportunities by the company.

The key factors are total oil recovered, carbon dioxide source and cost, price of oil, and tax level. I mentioned that we expect total oil recovery to be up to as much as 100 million barrels. It could be more or less. We do have some flexibility on this factor, but a large minimum oil reserve is necessary.

I've mentioned that carbon dioxide is still an unknown as far as the source and the cost. Future oil price also is a major unknown, but we must plan for a real growth in the price of oil to make the project economical. That is, the price of oil must increase faster than the inflation rate. Oil has been declining rapidly in price in recent months and is now about $25 per barrel. This is certainly going to have a negative influence on our management's decision about this project.

Tax treatment is the other main factor that will affect our decision on the project. The federal government's reduction in windfall profits tax on tertiary oil production is significant. But this benefit is diminished under current oil price trends. Other states have provided severance tax reductions to increase oil production. Louisiana, Mississippi and Kansas have tax incentives laws in effect, and the Wyoming legislature passed a bill in this year's session. Montana needs this tax legislation to make the Cedar Creek Anticline project economically viable and to encourage other tertiary projects in the state.

XA0850492

CURRENT PLANNING STATUS

On a project of the size and scope of the Cedar Creek Anticline, much advance planning and work must be completed even before the project is ultimately approved by the company's board of directors. We cannot wait until the very last minute to plan and make preparations. We have been doing everything we can to facilitate the project, hoping that it does go forward. This includes discussions with companies having the ability to provide CO_2 for the project. It is important that you understand we must do this work now to meet our construction schedule, even though we do not yet know for sure that we actually will go ahead with the CO_2 project. As stated previously, a final decision will be made in the last half of 1985.

The Exxon pipeline from Wyoming is one of the potential sources of CO_2 for the project. We've held discussions with Exxon and are continuing to talk to them about furnishing CO_2. We also are continuing our discussions with representatives from the ANR coal gasification project in North Dakota, the other major potential CO_2 supplier.

Exxon has been making plans for its CO_2 pipeline and also is proceeding with the necessary prerequisites to line installation. This does not mean it is a certainty the pipeline will be built. To meet our timing, as well as the timing of other potential CO_2 buyers, Exxon has had to take a number of preliminary actions. Some of these have been publicized, and many of you probably have heard of them. It should not be assumed from the preliminary work of Exxon and SWEPI that these projects are definitely committed. Such an assumption would be wrong; they are not yet approved projects with corporate investment money budgeted.

There also have been questions about other potential CO_2 projects in the state. To our knowledge, the Cedar Creek Anticline project is by far the largest and certainly the most advanced in terms of planning of the potential projects. We do not believe that other projects would be any more amenable to CO_2 flooding or potentially better or more profitable than ours. Thus the incentive provided by this legislation would encourage other major investments in these projects just as it will for ours.

CONCLUSIONS

H.B. 636 is designed to provide economic incentive to the oil industry to produce more oil in Montana. It also will prevent significant adverse effects on state or local revenues.

The benefit of this bill to the oil industry depends on results. The amount of the benefit depends on the amount of additional oil produced. Other incentives could be designed to give more benefit up front, and frankly, these would be more desirable from industry's standpoint.

XA0850492

But this bill has been designed so that both the state and the oil industry will share in the revenues from additional production. Also, state and local governments will not have significant adverse impacts.

Let me repeat that this project is risky. We need all of the encouragement we can get to help reduce the investment risk of the project. We need the tax incentive provided in this bill.

While some inflation in oil prices is probable, the costs of this type of project (particularly the carbon dioxide costs) also will inflate, thus reducing much of the benefit of a normal oil price increase. Some oil price increase above the inflation rate is necessary to make the projects viable.

The time for a decision is now. Our Cedar Creek Anticline project must be started soon if it is to be done. We cannot do the project later because of technical and economic reasons.

Government and industry can work together on this project for the good of all. A reduction in the severance tax on this additional oil production could result in many benefits for Montanans if the project becomes a reality:

- Specifically, CO_2 flooding would extend the producing life of Cedar Creek Anticline reservoirs by about 50 years and result in a peak incremental production of about 10,000 barrels per day.

- Capital investment by industry for this project alone would be about $225 million. Operating expenses over the life of the project are estimated to be an additional $1.1 billion, including more than $500 million for purchased CO_2.*

- The State of Montana would receive about $60 million additional severance tax income from CO_2 incremental production (based on 2.5% incremental oil severance tax rate).*

- An estimated $135 million in additional net proceeds taxes and property taxes would be paid to eastern Montana counties from CO_2 projects in the Cedar Creek Anticline (based on current mill levies).*

Your favorable decision on this bill will bring Shell Western one step closer to making the decision that will result in significant new investments in eastern Montana within a few years to increase oil production.

Thank you for considering our viewpoints.

* Based on 1984 dollars and crude price of $27.94

PROGRESS BAKER & FALLON COUNTY

for enhancement for economic growth

P.O. BOX 679 • BAKER, MONTANA 59313 • (406) 778-3344

Senate Taxation Committee
Tom Towe, Chairman

Progress Baker and Fallon County, representing over 500 members, believe that passage of House Bill 636 - Tertiary Oil Reduction, is essential to our economic survival of the Cedar Creek Anticline and all people associated with it.

Passage of this bill will allow for over $1 Billion to be placed in the economy of Eastern Montana and the State. It will also lengthen the life of oil production to over 50 years rather than the predicted 15 years.

The feasibility studies being conducted by Shell Oil indicate it is necessary to have the reduction to 2.5% Severance tax before the CO2 project can be implemented. If this Bill does not pass, it could mean Shell Oil will not go ahead with the project.

According to a spoksman for Exxon Oil (a possible supplier for CO2), a decision by Shell Oil not to implement the project could be a contributing factor to stop the construction of a pipeline carrying the chemical from Wyoming through Montana. This pipeline plans to employ over 900 people.

House Bill 636 has an amortization amendment, added by the House, addressing the payments of taxes to the counties of Montana where we would not suffer extreme hardships. If HB 636 passes, this time schedule of payments will keep eastern Montana from being thrown into a financial crisis. We feel our economy cannot stand any further financial setbacks. The Oil companies are our largest employers.

Passage of HB 636 as amended by the House is imparative.

Therefore, we ask that you consider a recommendation for a "Do Pass" in the Senate of a 2.5% Severance Tax.

ICE ANDERSON
IM ANDERSON
EVERETT KNIPP
RRY GRANAT
EL KENITZER
JIM NTON
ORDON HEIMBUCK
ARRY MERWIN
ATT THIELEN

Exhibit 3 -- HB 636
April 3, 1985

Baker Chamber of Commerce
Building a Better Baker

Through . . .
● BUSINESS
● INDUSTRY
● AGRICULTURE

BAKER, MONTANA 59313

Senate Taxation Committee
Tom Towe, Chairman

The Baker Chamber of Commerce would like to go on record as being a proponent for House Bill 636.

We believe passage of this bill is imparative to the economy and well being of eastern Montana. The employment and incomes generated from Shell Oil's implementation of the CO2 injection method of tertiary recovery, will help to boost the economy of the State of Montana.

Shell Oil has proposed that the CO2 injection process will enhance Montana's economy in excess of $1 Billion. This is a figure we take seriously.

We want the CO2 to be introduced to Montana and we believe the incentive in the reduction of the Severance Tax expressed in House Bill 636, is the key that will encourage an extension to this industry.

Therefore, we urge you to consider a recommendation to the Senate to Pass HB 636 in the written form as the House Passed it recently.

Sincerely,

Dale Boggs

Dale Boggs, President
Alice Anderson, Secretary

Exhibit 4 -- HB 636
April 3, 1985

TABLE 1
TAXABLE VALUE IN FALLON COUNTY DUE TO SHELL

Year	Waterflood (millions)	CO2: 1 year (millions)	CO2: 10 year (millions)
1984	84.7		
1985	78.1	CO2 Injection begins in 1987	
1986	71.0		
1987	64.3	45.0	45.0
1988	58.1	14.9	50.6
1989	51.2	8.5	39.9
1990	44.7	10.8	37.2
1991	38.8	21.8	41.4
1992	35.6	30.0	44.8
1993	32.1	44.9	53.6
1994	28.4	47.2	51.1
1995	24.2	51.1	49.6
1996	20.9	48.5	43.0
Average from 1987 to 1996:			
	39.83	32.27	45.62

TABLE 2
TAXABLE VALUE OF FALLON COUNTY

Year	Waterflood (millions)	CO2: 1 Year (millions)	CO2: 10 Year (millions)
1984	115.7 (actual)		
1985	109.1	CO2 Injection begins in 1987	
1986	102.0		
1987	95.3	76.0	76.0
1988	89.1	45.9	81.6
1989	82.2	39.5	70.9
1990	75.7	41.8	68.2
1991	69.8	52.8	72.4
1992	66.6	61.0	75.8
1993	63.1	75.9	84.6
1994	59.4	78.2	82.1
1995	55.2	82.1	80.6
1996	51.9	79.5	74.0
1987-1996 Average			
	70.83	63.27	76.62

TABLE 3
MILL LEVY IN FALLON COUNTY

Year	Waterflood (millions)	CO2: 1 year (millions)	CO2: 10 year (millions)
1984	85.8		
1985	91.0	CO2 Injection begins in 1987	
1986	97.3		
1987	104.1	130.6	130.6
1988	111.4	216.2	121.6
1989	120.7	251.3	140.0
1990	131.1	237.4	145.5
1991	142.2	188.0	137.1
1992	149.0	162.7	130.9
1993	157.3	130.8	117.3
1994	167.1	126.9	120.9
1995	179.8	120.9	123.1
1996	191.2	124.8	134.1
Average from 1987 to 1996:			
	145.39	168.96	130.11

Exhibit 5 -- HB 636
April 3, 1985

TABLE 4
COLLECTIONS FOR STATEWIDE LEVIES
BASED ON TOTAL TAXABLE VALUE OF FALLON COUNTY
(University Levy and School Foundation Program)

Year	Waterflood (millions)	CO2: 1 year (millions)	CO2: 10 year (millions)
1984	$5.900		
1985	5.564		
1986	5.202		
1987	4.860	3.876	3.876
1988	4.544	2.341	4.162
1989	4.192	2.015	3.616
1990	3.861	2.132	3.478
1991	3.560	2.693	3.692
1992	3.397	3.111	3.866
1993	3.218	3.871	4.315
1994	3.029	3.988	4.187
1995	2.815	4.187	4.111
1996	2.647	4.055	3.774
Total from 1987 to 1996:			
	36.12	32.27	39.08

TABLE 5
STATE OIL SEVERANCE TAX COLLECTIONS
UNDER VARIOUS TAX RATES

YEAR	H2O ONLY AT 5%	H2O+CO2 AT 5%	CO2 INCREMENT AT 2.5%	H2O ONLY PLUS AT 5%+2.5%
1984	8.7	8.7		
1985	8.6	8.6		
1986	8.2	8.2		
1987	7.5	6.7		
1988	6.8	6.4		
1989	6.3	7.0	.3	6.6
1990	5.7	7.5	.9	6.6
1991	5.3	8.3	1.5	6.8
1992	4.7	8.5	1.9	6.6
1993	4.1	8.3	2.1	6.2
1994	3.7	8.1	2.2	5.9
1995	3.3	7.9	2.3	5.6
1996	2.9	8.0	2.5	5.4
TOTAL	36.0	63.6	13.7	49.7

Wyoming State Legislature

213 Capitol Building / Cheyenne, Wyoming 82002 / Telephone 307/777-7881

RECEIVED
MAR 14 1985
OBPP

Legislative Service Office
Ralph E. Thomas
Director

March 12, 1985

Mr. Jim Oppedahl
Office of Budget and Planning
State Capitol
Helena, Montana 59620

Dear Jim:

In response to our conversation last month, enclosed is a copy of the bill that passed relating to the taxation of tertiary production. To "fit it in" to Wyoming's statutes, enclosed is a book we prepare which relates to the taxation of all minerals. The statutes are contained in the appendix beginning on Page 40.

All other bills we discussed died, were killed or were vetoed. If you have any questions or if we can be of further service, please advise.

Sincerely,

C. James Orr
Assistant Director

CJO/mc
Enc.

Note: No charge for the book.

Exhibit 6 -- HB 636
April 3, 1985

NAME George Keys BILL NO. HB 636

ADDRESS Houston, Tx. DATE 4/3/85

WHOM DO YOU REPRESENT Shell Western E&P

SUPPORT ✓ OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

NAME Jerome Anderson BILL NO. HB 636

ADDRESS Billings Mt. DATE 4/3/85

WHOM DO YOU REPRESENT Shell Western E+P.

SUPPORT ✓ OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

DATE April 3, 1985

COMMITTEE ON Taxation

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One: Support	Oppose
[illegible]	Shell Western E&P	HB636	✓	
George Lee	Shell Western E&P	HB636	✓	
Jack Ryle	Shell Western E&P	"	✓	
Tucker Hibbard	Project 85	HB636	✓	
Mary A Langley	MT. Mining Assn	HB652	✓	
Wm. J. McGaIG	W. R. GRACE & Co.	HB652	✓	
Earl J Loiselle	W. R. Grace & Co	HB652	✓	
D. VANDEGRIFT	MT Petroleum Assn -	HB636	✓	
Mike Micone	WETA	HB652 HB636	✓	
William Doffield	Fallon County	HB636	✓	
Mike Stack	MT Oil Gas & Dil Cs.	HB636	✓	
Rep Marge Hart	Dist #23	HB636	✓	
Del Kemitzer	program Budget Research Co.	HB636	✓	
Mary Cramer	Exxon Co, USA	HB636	✓	
Rep Dean Switzer	HD #28	HB636	✓	
Jim Shelton	Supt. District #12	HB636	✓	
Sen. Tony Trail	Dist 11 Farmers	HB636	✓	

(Please leave prepared statement with Secretary)

need. Representative Winslow went on to say that he did not oppose HB 374 and that is why wine was taken out of HB 651.

Senator Towe asked if beer and wine was taxed less than other distilled spirits. Mr. Tippy said that in the history of the way the products were handled it was not easy to compare as spirits were more controled. Senator Towe asked if the figures in Exhibit 1 included a retail sales tax. Mr. Morris said, yes.

Senator Halligan asked Representative Winslow about the rules issues. Representative Winslow said that only the bonding required a two-thirds vote and that the remaining portions of the bill were not affected by that.

Senator Mazurek asked Mr. Browning if he would support the bill if the rules problems were addressed. Mr. Browning said, no.

Senator Towe said that if the state debt provisons were removed from the bill there was no rules argument. Mr. Browning said that he disagreed because the bill was still improperly transmitted from the House to the Senate. He said the provisions should have been drafted separately.

Representative Winslow closed saying that the bill is properly before the committee. He said that it is the consumer and not the industry who pays the tax and that people are willing to pay an additional half cent per can of beer. He said the product causing the impact should bear the burden. He said that early intervention is important and that it would not be a wise policy on the part of the state to ignore the need.

Chairman Towe closed the hearing on HB 651.

MOTION: Senator McCallum moved that HB 636 be concurred in.

Senator Towe gave the committee proposed amendments to the bill in Exhibit 8. He said that the price of oil and the market, not the tax rate is the problem. He said that the price of carbon dioxide could change less than two percent and that would have greater impact than the tax incentive. He said there are already substantial tax incentives in federal tax law.

Senator Goodover asked if these amendments had been offered in the House. Representative Abrams said, no. Senator Goodover asked if the Department of Revenue were opposing the bill. Senator Towe said the amendments work had been done at his request.

Senator McCallum asked for a vote on the motion without amendment to the bill.

Senator Hirsch noted that the amendments did not have all the cost information. Senator Towe said that administrative costs were not included. Senator Hirsch said that it would be asking the oil companies to take all the risk and then ask for a part of the action

if they made money. Senator Towe said the additional incentive was not necessary if they were making more money. Senator Hirsch said that if we take a part of the profit then we have to take part of the risk.

Senator Neuman asked Mr. Tucker Hill what would prevent the companies from going automatically to tertiary recovery if the bill passed. Mr. George Keys said that the secondary recovery is a proven process and that it contrasts with tertiary which is risky and unproven. He said they want production and will not throw away what is working. Mr. Keys described that in secondary recovery the well is flooded with water which drives the oil ahead. He said tertiary would involve following the water with carbon dioxide. He said in lab they can get 100 percent of the oil from rock, but it has to be proven in the field. Mr. Jerome Anderson pointed out that there would be no benefit in tertiary recovery alone as only the incremental production increase is eligible for the incentive tax reduction.

Senator Towe suggested that the Department of Revenue rather than the Oil and Gas Conservation Board should be making the decisions. Mr. Keys said that the determination would be based on matters requiring the technical expertise of the oil and gas people. Mr. Anderson said the Department of Revenue can testify at the hearing but that he did not have confidence in the Department of Revenue to handle this function.

Senator Eck said the committee was being asked to buy a pig in a poke. She noted the language on page 4, line 4 that says methods "includes but are not limited to". She said the definition section should be more limited. Mr. Anderson said the language was taken from the federal windfall profits tax.

MOTION: Senator Lybeck moved as a substitute motion to adopt the amendments in Exhibit 8.

Senator Towe noted that the amendments include a sliding scale of expenses upward. Senator McCallum opposed the amendments saying that the people planning the expenditure should be given a green light.

Senator Halligan asked the amendments to include the striking of "iii". Senator Lybeck so amended his motion.

Senator Towe said the price of oil was likely to go up dramatically in 1993 to 1995, and increase steadily until then.

Senator Hirsch said that the amendments suggest that Montana is unwilling to do its part to proceed with oil recovery. He encouraged defeat of the amendments.

Question was called. Senators Brown, Goodover, Hager, Hirsch, Mazurek, McCallum and Severson voted no. Senators Eck, Halligan, Lybeck, Neuman and Towe voted yes. The motion failed.

In response to a question from Senator Towe, Mr. Anderson said that on page 3, lines 18 and 19 the exclusion of all carbon dioxide was ambiguous and suggested that portion of the language be stricken.

MOTION: Senator Hirsch moved that HB 636 be amended by striking lines 18 and 19 on page 3. The motion carried unanimously.

MOTION: Senator Eck moved that HB 636 be amended on page 4, line 14, by striking everything after "methods" through line 1 on page 5. Inserted should be "is limited to carbon dioxide water flooding and admissible carbon dioxide displacement."

Mr. Anderson said that the problem is that there are one or two polymer process steam injection operations in Montana. He said that is the other recognized methodology within the industry. Senator Eck agreed that it might be best to wait and look at what is happening. She withdrew the motion.

MOTION: Senator Eck moved that HB 636 be amended by giving the Department of Revenue rather than the Oil and Gas Conservation Commission oversight responsibility.

Senator Towe supported the motion saying that revenue oversight cannot be turned over to the Oil and Gas Commission.

Senator Brown asked what assurance there would be without this amendment that nonindustry interest would be protected. Mr. Darwin Vandegraff said that the oil and gas people have the expertise in the industry to do the best job. Mr. Anderson said they have sound engineering judgment and that they would have nothing to gain by giving additional incentives.

Senator Halligan said that the Legislature cannot ask the Oil and Gas Conservation Commission to do the job of revenue policy.

Senator Hirsch said that he would not quibble, but that he was concerned about Department expertise. He said that the Oil and Gas Commission has three public members and that it is a responsible and balanced board.

Senator Towe disagreed saying that they were very proindustry. He said that tertiary is not defined in the bill because even the feds have not been able to define it. He said that decision cannot be left in industry hands.

Senator Goodover asked Mr. John LaFaver, Director of the Department of Revenue, if they have the necessary expertise to administer the bill. Mr. LaFaver said that it would be handled as are a number of technical areas by using professional hearings officers. He noted that alcohol is a very technical area that the Department was required to handle.

Question was called. Senators Goodover, Hager, McCallum and Severson voted no. All others voted yes. The motion carried.

Senator Towe inquired about the termination date. Senator Hirsch said there should not be one as it is a forty year project. He said that guaranteed incentive would allow them to make a calculated decision.

MOTION: Senator Eck moved that HB 636 be amended by adding a new Section 5 to include a termination date, using the language from the bottom of Exhibit 8.

Senator Brown echoed the comments of Senator Hirsch and opposed the motion saying that tax policy is capricious enough as is.

Senator Eck withdrew the motion.

MOTION: Senator McCallum moved that HB 636 be concurred in as amended. Senators Eck, Lybeck and Towe voted no. All other committee members voted yes. The motion carried. Senator Hirsch agreed to carry the bill.

CONSIDERATION OF HB 374: Senator Mazurek moved that HB 374 be concurred in. He noted that the unaccounted for .01 percent had not been dispossed of. He said it amounted to about $5800 per year.

MOTION: Senator Hirsch moved that HB 374 be amended per Exhibit 9. The motion carried unanimously.

Question was called on the original motion. Senators Goodover and Hager voted no. Other committee members voted yes. The motion carried and Senator Brown was assigned to carry the bill.

Chairman Towe adjourned the meeting at 11:00 am.

Thomas E. Towe

Chairman

STANDING COMMITTEE REPORT

April 16, 1985

MR. PRESIDENT

We, your committee on Taxation

having had under consideration House Bill No. 636

third reading copy (blue color)

(Senator Hirsch)

REDUCE TAX RATE ON PETROLEUM PRODUCED BY TERTIARY RECOVERY METHODS.

Respectfully report as follows: That House Bill No. 636

be amended as follows:

1. Page 3, line 17.
Following: "gas"
Insert: ", including carbon dioxide gas,"

2. Page 3, lines 18 and 19.
Following: "ground" on line 18
Strike: remainder of line 18 through "PROJECT" on line 19

3. Page 4, line 2.
Following: "the"
Strike: "board of oil and gas conservation"
Insert: "department of revenue"

4. Page 4, line 4.
Following: line 3
Strike: "as provided in 82-11-141"
Insert: "in accordance with Title 2, chapter 4"

5. Page 4, line 7.
Following: "the"
Strike: "board of oil and gas conservation"
Insert: "department"

6. Page 4, lines 10 and 11.
Following: "the" on line 10
Strike: "board of oil and gas conservation"
Insert: "department"

~~AS AMENDED~~

~~DO NOT PASS~~

continued

Chairman.

April 16, 1985

7. Page 4, line 25 through line 1, page 5.
Following: "the" on line 25
Strike: "board of oil and gas conservation"
Insert: "department"

8. Page 5, lines 4 and 5.
Following: "by the" on line 4
Strike: "board of oil and gas conservation"
Insert: "department of revenue"

9. Page 5, line 7.
Following: "the"
Strike: "BOARD"
Insert: "department"

10. Page 9, lines 3 and 4
Following: "authority of" on line 3
Strike: "the board of oil and gas conservation or"

AND AS AMENDED
BE CONCURRED IN

Senator Thomas F. Keating, Chairman

COURTESY OF THE State Law Library of Montana

HB 0636/04

HOUSE BILL NO. 636

INTRODUCED BY ABRAMS, DEVLIN, HART, ASAY, E. SMITH, SHAW, TVEIT, GAGE, STEPHENS, NATHE, KEATING, D. BROWN, HANSON, ZABROCKI

A BILL FOR AN ACT ENTITLED: "AN ACT TO REDUCE THE TAX RATE ON PETROLEUM PRODUCED BY TERTIARY RECOVERY METHODS FROM 5 PERCENT TO 2.5 PERCENT; ~~ALLOWING~~ REQUIRING AMORTIZATION OVER 10 YEARS OF THE ~~DEDUCTION FOR THE~~ COSTS OF ~~CARBON-DIOXIDE~~ NECESSARY CHEMICAL SUPPLIES USED IN APPROVED TERTIARY RECOVERY PROJECTS; AMENDING SECTIONS 15-23-603 AND 15-36-101, MCA; AND PROVIDING AN EFFECTIVE DATE."

WHEREAS, the Legislature recognizes that it is essential to the continued growth in production and development of the petroleum resources of this state and to the continued prosperity and welfare of the people of this state that tertiary recovery operations be encouraged; and

WHEREAS, the Legislature further recognizes that tertiary recovery methods are experimental and more costly than traditional enhanced recovery operations, thus preventing recovery of oil in many fields because of economic infeasibility.

THEREFORE, it is the policy of the Legislature to provide an economic incentive to petroleum producers who invest in tertiary recovery projects enhancing Montana's crude oil production to the ultimate benefit of the state.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-36-101, MCA, is amended to read:

"15-36-101. Definitions and rate of tax. (1) Every person engaging in or carrying on the business of producing petroleum, other mineral or crude oil, or natural gas within this state or engaging in or carrying on the business of owning, controlling, managing, leasing, or operating within this state any well or wells from which any merchantable or marketable petroleum, other mineral or crude oil, or natural gas is extracted or produced sufficient in quantity to justify the marketing of the same must, except as provided in 15-36-121, each year when engaged in or carrying on any such business in this state pay to the department of revenue for the exclusive use and benefit of the state of Montana a severance tax computed at the following rates:

(a) except as provided in subsections (1)(b) and (1)(c), 5% of the total gross value of all the petroleum and other mineral or crude oil produced by such person from each lease or unit on or after April 1, 1981, and on or before March 31, 1983; 6% of the total gross value of all the petroleum and other mineral or crude oil produced by such person from each lease or unit on or after April 1, 1983,

REFERENCE BILL: INCLUDES GOVERNOR'S AMENDMENTS DATED 4-14-85

and on or before March 31, 1985; and 5% of the total gross value of all the petroleum and other mineral or crude oil produced by such person from each lease or unit thereafter; but in determining the amount of such tax there shall be excluded from consideration all petroleum or other crude or mineral oil produced and used by such person during such year in connection with his operations in prospecting for, developing, and producing such petroleum or crude or mineral oil;

(b) 2.65% of the total gross value of natural gas produced from each lease or unit; but in determining the amount of such tax there shall be excluded from consideration all gas produced and used by such person during such year in connection with his operations in prospecting for, developing, and producing such gas or petroleum or crude or mineral oil; and there shall also be excluded from consideration all gas, INCLUDING CARBON DIOXIDE GAS, recycled or reinjected into the ground, ~~and all carbon--dioxide--gas USED--IN-AN-APPROVED-TERTIARY-RECOVERY PROJECT~~;

(c) 2.5% of the total gross value of the incremental petroleum and other mineral or crude oil produced from each lease or unit in a tertiary recovery project after [the effective date of this act]. For purposes of this section, a tertiary recovery project must meet the following

requirements:

(i) the project must be approved as a tertiary recovery project by the ~~board-of-oil-and-gas-conservation~~ DEPARTMENT OF REVENUE. Such approval may be extended only after notice and hearing ~~as--provided--in--82-11-141~~ IN ACCORDANCE WITH TITLE 2, CHAPTER 4.

(ii) the property to be affected by the project must be adequately delineated according to the specifications required by the ~~board--of--oil--and--gas--conservation~~ DEPARTMENT; and

(iii) the project must involve the application of one or more tertiary recovery methods that can reasonably be expected to result in an increase, determined by the ~~board of--oil-and-gas-conservation~~ DEPARTMENT to be significant in light of all the facts and circumstances, in the amount of crude oil which may potentially be recovered. For the purpose of this section, tertiary recovery methods include but are not limited to:

(A) miscible fluid displacement;

(B) steam drive injection;

(C) micellar/emulsion flooding;

(D) in situ combustion;

(E) polymer augmented water flooding;

(F) cyclic steam injection;

(G) alkaline or caustic flooding;

(H) carbon dioxide water flooding;

(I) immiscible carbon dioxide displacement;

(J) any other method approved by the ~~board of oil and gas conservation~~ DEPARTMENT as a tertiary recovery method.

(d) For purposes of this section, the term "incremental petroleum and other mineral or crude oil" means the amount of oil, as determined by the ~~board of oil and gas conservation~~ DEPARTMENT OF REVENUE, to be in excess of what would have been produced by primary and secondary methods. THE DETERMINATION ARRIVED AT BY THE BOARD DEPARTMENT MUST BE MADE ONLY AFTER NOTICE AND HEARING AND SHALL SPECIFY THROUGH THE LIFE OF A TERTIARY PROJECT, CALENDAR YEAR BY CALENDAR YEAR, THE COMBINED AMOUNT OF PRIMARY AND SECONDARY PRODUCTION THAT MUST BE USED TO ESTABLISH THE INCREMENTAL PRODUCTION FROM EACH LEASE OR UNIT IN A TERTIARY RECOVERY PROJECT.

(2) Nothing in this part may be construed as requiring laborers or employees hired or employed by any person to drill any oil well or to work in or about any oil well or prospect or explore for or do any work for the purpose of developing any petroleum or other mineral or crude oil to pay such severance tax, nor may any work done or the drilling of any well or wells for the purpose of prospecting or exploring for petroleum or other mineral or crude oils or for the purpose of developing same be considered to be the

engaging in or carrying on of any such business. If, in the doing of any such work, in the drilling of any oil well, or in such prospecting, exploring, or development work, any merchantable or marketable petroleum or other mineral or crude oil in excess of the quantity required by such person for carrying on such operation is produced sufficient in quantity to justify the marketing of the same, such work, drilling, prospecting, exploring, or development work is considered to be the engaging in and carrying on of such business within this state within the meaning of this section.

(3) Every person required to pay such tax hereunder shall pay the same in full for his own account and for the account of each of the other owner or owners of the gross proceeds in value or in kind of all the marketable petroleum or other mineral or crude oil or natural gas extracted and produced, including owner or owners of working interest, royalty interest, overriding royalty interest, carried working interest, net proceeds interest, production payments, and all other interest or interests owned or carved out of the total gross proceeds in value or in kind of such extracted marketable petroleum or other mineral or crude oil or natural gas, except that any of the aforesaid interests that are owned by the federal, state, county, or municipal governments shall be exempt from taxation under

this chapter. Unless otherwise provided in a contract or lease, the pro rata share of any royalty owner or owners will be deducted from any settlements under said lease or leases or division of proceeds orders or other contracts."

Section 2. Section 15-23-603, MCA, is amended to read:

"15-23-603. Net proceeds -- how computed. (1) The department of revenue shall calculate and compute from the returns the gross sales proceeds of the product yielded from such well for the year covered by the statement and shall calculate the net proceeds of the well yielded to the producer, which net proceeds shall be determined by subtracting from the gross sales proceeds thereof the following:

(a) all royalty paid in cash by the operator or producer and the gross value of all royalty apportioned in kind by the operator or producer that shall be determined by using as the value of a barrel of oil or a cubic foot of gas the average selling price for the calendar year of a barrel of oil or a cubic foot of gas from the well out of which the royalty was paid;

(b) all moneys expended for necessary labor, and machinery, ~~and supplies~~ needed and used in the operation and development;

(c) except as provided in subsection (3), all moneys expended for necessary supplies needed and used in the

operation and development;

~~(c)~~(d) all moneys expended for improvements, repairs, and betterments necessary in and about the working of the well;

~~(d)~~(e) all moneys expended for fire insurance and workers' compensation insurance and for payments by operators to welfare and retirement funds when provided for in wage contracts between operators and employees;

~~(e)~~(f) 70% of the amount paid or withheld in satisfaction of liability for excise taxes imposed by the U.S. government on the production, sale, or removal of the natural gas, petroleum, or other crude or mineral oil yielded from such well, other than the amount of such taxes paid by or withheld from each royalty owner.

(2) No moneys invested in the well and improvements during any year except the year for which such statement is made may be included in such expenditures, except as provided in 15-23-604, and such expenditures may not include the salaries or any portion thereof of any person or officer not actually engaged in the working of the well or superintending the management thereof.

(3) In calculating the deduction for moneys expended for ~~carbon-dioxide~~ NECESSARY CHEMICAL SUPPLIES needed and used in a tertiary recovery project approved by the ~~board of oil and gas conservation~~ DEPARTMENT OF REVENUE, as provided

in 15-36-101, the department shall ~~allow-10%-of-such--moneys expended--each--year--for-a-period-of-10-years~~ REQUIRE THAT THE NECESSARY CHEMICAL SUPPLIES, WHICH INCLUDE BUT ARE NOT LIMITED TO CARBON DIOXIDE SUPPLIES, BE AMORTIZED OVER A 10-YEAR PERIOD beginning with the year in which the moneys were expended."

NEW SECTION. Section 3. Extension of authority. Any existing authority of ~~the-board-of-oil-and-gas--conservation~~ or the department of revenue to make rules on the subject of the provisions of this act is extended to the provisions of this act.

NEW SECTION. Section 4. Effective date. This act is effective July 1, 1985.

-End-